NAPA's List of Top 25 Washington Officials Shaping Retirement Policy
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New York Life Retirement Plan Services 12/31/2012
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by Fred Barstein

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EDITOR-IN-CHIEF
Fred Barstein

PUBLISHER
Erik Vander Kolk
evanderkolk@napa-advisors.org

EDITOR
John Ortman
jortman@napa-advisors.org

ASSOCIATE EDITOR
Troy Cornett
tcornett@asppa.org

ART DIRECTOR
Tony Julien

ADVERTISING COORDINATOR
Jenn McKibben

Jr. GRAPHIC DESIGNER
Michelle Brown

NAPA OFFICERS

PRESIDENT
Marcy Supovitz, CPC, QPA, QKA, AIA, ChFC, CLU

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Brian H. Graff, Esq., APM

NAPA Net — The Magazine is published quarterly by the National Association of Plan Advisors, 4245 North Fairfax Dr., Suite 750, Arlington, VA 22203. For subscription information, advertising and customer service, please contact NAPA at the above address or call 800-308-6714, or customerscare@asppa.org. Copyright 2013, National Association of Plan Advisors. All rights reserved. This magazine may not be reproduced in whole or in part without written permission of the publisher. Opinions expressed in bylined articles are those of the authors and do not necessarily reflect the official policy of NAPA.

Postmaster: Please send change-of-address notices for NAPA Net — The Magazine to NAPA, 4245 North Fairfax Dr., Suite 750, Arlington, VA 22203.

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In an era when magazines are fading, with media companies and familiar magazines like *Time*, *Newsweek* and *U.S. News and World Report* struggling, it might seem odd that NAPA is launching an ink-on-paper magazine. Critics might suggest that we should be happy with the phenomenal success of the NAPA Net web portal and the NAPA Net Daily, both of which have far exceeded our high expectations. NAPA Net has become the dominant electronic news portal for the retirement plan advisor industry in less than a year.

But that’s exactly what we’re doing — and for several very good reasons.

First, NAPA is a professional association, not a media company. Our primary goal is to further the interests of retirement plan advisors and those who support them in a number of ways, including advocacy, conferences, education, research and media like NAPA Net, the Daily — and now NAPA Net – The Magazine. In fact, we have the distinct advantage of starting with electronic media, which is the way that most people want to interact with us, rather than turning to it as an afterthought to promote print publications.

With almost 7,000 members — and growing — as of Sept. 1, 2013, which makes NAPA one of the fastest growing associations in history, we have the obligation to reach and influence our members and decision makers in Washington in whichever ways are most effective. We believe that a quarterly magazine is an essential avenue for communicating and furthering NAPA’s mission.

Second, the Daily has become popular among industry professionals, especially busy plan advisors, because we focus on important news and trends in a format that can be digested quickly — highlighting what’s important about the news, trend or web commentary and how advisors can use it. But there are important issues that deserve more in-depth discussions — issues that NAPA and its deep bench of industry thought leaders are well positioned to uncover and interpret. A magazine format will allow us to delve deeper into those key issues.

For example, the cover story of this first issue, “DC Power Hitters,” goes to the essence of why NAPA was created — highlighting the major issues that legislators and regulators in Washington are tackling that could dramatically alter the industry landscape and affect every plan advisor’s business. Focusing on the top five DC officials most likely to impact these issues — the DOL’s Phyllis Borzi, the SEC’s Mary Jo White, Reps. Dave Camp and George Miller and Sen. Elizabeth Warren — the article explains how they will influence the discussion about the redefinition of fiduciary, the uniform fiduciary rule, tax reforms and IRAs.

This first issue also features articles on:

- the growing relevance of equalized revenue sharing payments by participants;
- the practical considerations when an advisor transitions broker dealers; and
- how to sell retirement benefits to the CFO.

Our columnists include some of the industry’s best-known thought leaders:

- EBRI’s Nevin Adams
- the Boston Research Group’s Warren Cormier
- the Groom Law Group’s David Levine
- NAPA CEO and executive director Brian Graff
- industry innovator Jerry Bramlett
- top plan advisor Steff Chalk
- fiduciary luminary Don Trone

You’ll also find a directory of products, services and value-added materials, as well as important information about leading service providers — providing a handy resource for plan advisors. The directory is based on the NAPA Net Partner Corner, which launched on the portal last month.

NAPA Net – The Magazine has been a labor of love for our staff, which includes editorial and advertising coordinator Jenn McKibben, managing editor John Ortman and publisher Erik Vander Kolk, as well as the talented staff at ASPPA, especially art director Tony Julien. We hope that you accept and read NAPA Net – The Magazine in the spirit in which it was created: to serve NAPA members and protect and improve a retirement system that is vital to the nation’s future.

Show Time

We hope that you accept and read NAPA Net – The Magazine in the spirit in which it was created: to serve NAPA members and protect and improve a retirement system that is vital to the nation’s future.”
Your 401(k) team needs a fiduciary recordkeeping pro.

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To help your clients understand the roles and responsibilities of the entire team, download the 401(k) Fiduciary Recordkeeping Playbook at pai.com/fiduciary-playbook
Doing Good and Doing Well

As a key part of NAPA’s core mission, advocacy allows you to play a role in shaping the future of the industry and the profession — and enhances your image as a thought leader.

Right now we stand at a pivotal moment in the history of the retirement industry. We’re facing a degree of adversity that we’ve never seen before. Congress is looking for tax revenue at the expense of workplace retirement plans. That puts the viability of the U.S. retirement system — and your livelihood — at risk. The Obama administration believes that it’s appropriate for the government to tell Americans when they’ve saved enough for retirement. That hurts individual savers and employees of small businesses. The Department of Labor seems bent on imposing via regulation an expanded fiduciary standard that no one in the legislative branch of government — or even any mainstream consumer group — seems to want, and that would deprive IRA investors of much-needed financial advice. And the pop media, not to mention Ivy League law professors, eagerly scapegoat advisors while providing shockingly shallow analysis of an issue that’s critical to the nation’s future.

The threats we face are serious and very real. Depending on the outcomes of two major developments in particular — tax reform and the DOL’s expanded definition of fiduciary — the ability of the industry to help Americans achieve their retirement savings goals could be severely compromised.

Voice of the Plan Advisor

It’s hard to overstate the importance of all this. If we don’t establish and maintain a forceful and consistent presence in Washington, lawmakers on Capitol Hill and regulators at the DOL, IRS and SEC will listen to others’ guidance and opinions on the issues that affect the future of our industry, not ours.

At this critical time for our industry and profession, we need a strong, clear voice in Washington.

Being that voice — representing the retirement industry in general, and plan advisors in particular — is a big part of NAPA’s core mission. The need for advisors to have a voice in Washington was a driving force behind the creation of NAPA just two short years ago. It looks like we may have been on to something: NAPA now has nearly 7,000 members, most of whom are plan advisors, and more than 100 Firm Partners who have shown their support of the profession — making it the fastest growing membership organization in the history of our industry.

When it comes to advocacy, NAPA is the one organization that speaks for plan advisors. By virtue of its close relationship with ASPPA, NAPA is able to leverage the knowledge and experience of ASPPA’s government relations staff, long regarded as one of the most respected and effective in Washington. These advocates truly have your back —

• helping shape regulatory initiatives at the DOL, IRS and SEC;
• educating members of Congress and their staffs about how America saves; and
• representing the interests of plan participants, plan sponsors and plan advisors as legislation is developed and refined on Capitol Hill — and in state capitals around the country.

NAPA’s DC Fly-in Forum

Last month we took that advocacy effort to a new level, as nearly 100 NAPA plan advisors — with $1 trillion AUM, and representing 2.7 million participants and 8,300 plans — met with congressional leaders to highlight the value of the current retirement system, the importance of protecting the federal tax deferral for retirement savings, and the value that plan advisors bring to their clients to help them prepare for retirement.

The first annual NAPA DC Fly-in Forum brought elite plan advisors to Washington not just to hear from congressional leaders, but to benefit from the Forum’s unique two-step approach:

• hearing from Washington insiders, including members of Congress and high-ranking staffers and federal officials, about their take on issues critical to the industry, and sharing the industry’s perspective on those same issues; and
• actually visiting with Senators and Congressmen and their key staffers in their offices to explain what plan advisors do and what we’re concerned about.

Speakers at the Forum included Sen. Ben Cardin (D-MD); Rep. John Kline (R-Minn), Chairman of the House Education and Workforce Committee; Rep. Ann Wagner (R-MO) and Treasury’s Mark Iwry, as well as Hill staffers responsible for retirement policy.

There are advisors out there helping plan sponsors and participants, and they’re making a real difference. The problem is that members of Congress don’t know this. Basically, the job of a member of Congress is to know a little about a lot of things. Very few are really knowledgeable about how all the parts of the corporate retirement plan
market work together to help American workers save for a comfortable retirement.

That’s the goal that all of us — advisors, employers, government regulators and members of Congress — share: helping Americans achieve a dignified retirement. We’re all in this together. In a sense, advocacy is really all about taking advantage of a chance to do good. And advisors play a vital role in that shared goal.

Advocacy Helps Your Practice

Through the 30 or so years I’ve been involved with ASPPA and NAPA, my involvement in advocacy efforts has allowed me to stay one step ahead of the curve. I’ve found that it reinforces my credibility in the eyes of my clients.

For example, we all know that automatic enrollment works. Some employers are paternalistic and therefore support auto plan features. But others don’t, for a variety of reasons. When dealing with those who don’t, I’ve found it helpful to note that based on a discussion I had with a member of Congress, it’s clear to me that there are those in Congress who would like to make auto enrollment mandatory.

That insight changes the discussion and the way your client perceives your value. It crystallizes your image as a thought leader — as an influencer, not a follower.

One Forum delegate put it this way: He goes to so many meetings every year that he almost missed the one that really matters in terms of actually affecting his business. He called it “an investment in his practice.” And while his colleagues can read about what’s happening in DC as they try to keep up with the many changes their clients depend on them to track and report, this advisor can differentiate himself by explaining that through the Forum he had direct access to not only keep abreast of changes in Washington, but to actually affect them. While almost every advisor can create a four-color investment review, benchmark fees or offer access to top providers, very few can say that they actually meet with members of Congress and influence policy.

That’s just part of the value proposition NAPA offers. If you’re already a member, we’re glad you’re with us. If you’re not, well, what are you waiting for?

Marcy Supovitz, CPC, QPA, QKA, AIF, ChFC, CLU, is the founding president of NAPA. She also serves on the Board of Directors of ASPPA. Marcy is a principal with Boulay Donnelly & Supovitz Consulting Group, Inc., a retirement plan consulting and investment advisory firm in Worcester, MA.

There are advisors out there helping plan sponsors and participants, and they’re making a real difference. The problem is that members of Congress don’t know this.”

NAPA Net – The Magazine is one benefit of being a NAPA member… here are some others.

NAPAnet – the magazine

NAPA List of Top 25 Washington Officials Shaping Retirement Policy

Practice Management and Networking
• NAPA – 7,000+ members and 100+ Firm Partners
• NAPA 401(k) SUMMIT
• NAPA DC Fly-In Forum
• Committee Leadership

Business Intelligence
• NAPA Net Daily
• NAPA Net Online Portal
• NAPA – The Magazine
• NAPA quarterly webcasts

Advocacy
Your Voice on Capitol Hill and in the DOL, Treasury and IRS

Whether you join as an individual member or through a NAPA Firm Partner (like your broker dealer or company), NAPA helps you manage your practice, grow your AUM and identify business opportunities and vital plan management services.

If you’re not already a member, what are you waiting for?

Contact: Jeff Hoffman, Sr. Director of Business & Membership Development, NAPA
703-516-9300 x119 · jhoffman@asppa.org
The DOL’s proposed fiduciary definition regulation is on the horizon — what will it mean to plan advisors, participants and the retirement industry?

The DOL’s proposed regulation redefining what it means to be an ERISA fiduciary is coming soon — probably either later this year or the beginning of next year. The regulation is likely to significantly disrupt the retirement industry marketplace in three major respects. Let’s take a closer look at the DOL’s effort and its potential impact on the retirement industry, by addressing those three critical questions.

What will the impact be on the micro market?

If the regulation looks like we expect it to, in the context of 401(k) plans, it will essentially say that all types of advice given to plan sponsors in the context of selecting an investment menu will be deemed ERISA advice. Currently, of course, if you’re selling a plan and you’re setting up a menu, that would not necessarily be considered a fiduciary act. But the regulation would make all of that subject to ERISA’s fiduciary rules. And even though in large part the 401(k) plan marketplace is moving in that direction, there is a major policy concern about what that would mean to the micro market.

In the micro market, it’s well understood that 401(k) plans are not bought, they’re sold. The key point of being subject to the fiduciary rules is that if you’re an ERISA fiduciary, you basically cannot accept commission–based compensation. And in the micro space, that form of compensation is certainly more prevalent than it is in other segments of the 401(k) universe.
The policy concern begins with taking into account two factors: that 401(k) plans in the micro market are sold, not bought; and that many of the folks who sell them get paid on a commission basis. The key question is: If the regulation says that people who sell 401(k) plans are not allowed to get commission-based compensation any more, who’s going to distribute 401(k) plans in the micro market?

This is a significant policy concern because that’s the market that currently has the biggest lack of coverage. If, as we know, the critical component to being able to successfully prepare for retirement is having access to a plan at work; and if, as we also know, the micro market is the market segment that currently suffers the most from a dearth of workplace retirement plans; then the fact that this regulation would disrupt the main distribution channel for 401(k) plans to that market space would be very detrimental from a policy standpoint.

Of course, plan sponsors should be told how much the advisor is being paid and how they are being paid — that is, whether that’s on a fee-based or commission basis. The ERISA 408(b)(2) disclosure should cover that. But a plan sponsor should also be told explicitly whether the advisor is acting as a fiduciary or not.

Many participants want to continue to benefit from the advice of the plan advisor after they retire, especially if they plan to roll over their retirement account to an IRA. How would that relationship be affected?

In a situation where a plan provider or advisor is working with a plan sponsor and plan participants, there’s a strong possibility that the DOL’s proposed rule is going to preclude the ability of that provider or advisor to continue to work with participants as they move into retirement.

The basis for this is that if someone wants to roll over retirement money from a plan into an IRA, the fee structure is most likely going to be higher in the IRA than it was in the plan. This is pretty typical given the fact that the costs associated with an individual account are going to be different than the costs associated with a 401(k).

The consequence under the proposed rule would be that, for example, if you have a provider that talks to a participant about a rollover opportunity and they’re going to charge as little as five basis points more, they could be precluded from having that conversation.

If you have a participant who has a trusted relationship with a plan provider or advisor, that person should have every right and ability to be able to continue that relationship as he or she moves into retirement. When people leave jobs, sometimes they just don’t want to see a statement from their old company, for whatever reason. Maybe financially or economically they would be better off leaving it in the plan, but they just don’t want to.

However, if they do want to continue to work with the provider of the plan or the advisor associated with the plan, then they should be able to do so. The idea that simply because the advisor or provider is charging a little bit more because it’s an IRA account versus a 401(k) account, that would prohibit them from being able to discuss rollover options with the participant is patently absurd, and we strongly object to it.

We think it makes much more sense to provide a disclosure to a participant — to say, “Okay, if you go to this rollover account, this is what you’re going to pay relative to what you are currently paying under your 401(k).” That’s good information that will let participants make choices that best suit their needs. The government shouldn’t — once again — be coming in and essentially dictating that that relationship cannot continue to exist.

What impact will the rule have on investors with smaller accounts and lower incomes?

The rule will apply to the approximate $5 trillion IRA market broadly. We have grave concerns that in effect, information that is currently available to participants by talking to someone who can help them with investment information is going to be precluded because now IRAs are going to be subject to a strict ERISA fiduciary standard.

The result of this would be that a lot of people with relatively small accounts — $20,000, $30,000, $40,000 IRA accounts — who want to get information about investment options will not have access to that information anymore. This means that investors with smaller amounts and lower incomes are the ones who are going to suffer the most. They’re not going to have an opportunity to work with someone they might want to work with.

Sure, you can always hire a registered investment advisor and pay that person a fee for completely independent advice. But a lot of people are just never going to do that because they don’t have the wherewithal to do it. The regulation is basically going to say, “We don’t care that these investors with smaller accounts and lower incomes are not going to have access to investment advice.” In fact, I think it will take a very paternalistic approach — saying, “Not only do we not care that you’re not going to have access to advice, but we think you’re better off that way.”

Instead, the view of ASPPA and NAPA is that what the government needs to do is provide consumers, investors and participants with information so they can make the best choices that suit their individual needs.

We believe that the best approach in the IRA sphere is disclosure. Currently there are no firm rules for IRA disclosures. There’s a need for such rules, as there is with respect to 401(k) plans. To the extent that there are perceived problems in the IRA market, that’s the place to start. But this extreme approach of essentially dictating or mandating how the marketplace must operate is going to result in investors getting less help and less advice. And that’s not good for anybody.

» Brian Graff, Esq., APM, is the executive director/CEO of ASPPA and NAPA.

The regulation is likely to significantly disrupt the retirement industry marketplace in three major respects.”
A

dvisors spend so much of their time on
the front lines — from assisting their
clients on a day-to-day basis to work-
ing actively to grow their businesses.
I can’t count the number of times an
advisor has said to me, “Why is it that the
regulators are making me do this? I already
look out for my clients,” or “I just want to
help my clients with their investments; why
can’t I just be left alone to make recommend-
dations?” While the common lawyer jokes
will often flow from these initial questions,
there is a basic reality that advisors need to
face: There is a real risk of being sued over
their business activities or having their activi-
ties investigated by the DOL.

Of course it’s easy for anyone to sue
someone else, but in this era of fee dis-
closures, complex financial products and
complex financial institutions, there are many
ways an advisor can get drawn into litigation,
including litigation relating to:
• selection of investment funds or vehicles
that go bad;
• selection of vendors where ongoing
operational problems occur; and
• fee disclosure errors.

Furthermore, with the DOL’s ongoing
investigations into various advisor practices,
the potential for significant legal costs and
penalties continues to rise. So what are advi-
sors to do?

While doing quality work that would
be expected of a prudent expert is a baseline
starting point, that doesn’t stop you from
being sued or investigated by the DOL.
Maybe you have an indemnity from a client
or other entity — but when does that kick in,
or do you need to put your own hard-earned
cash on the table up front? Where this leads
more and more advisors to is ERISA fiduciary
insurance.

Eight years ago, I asked an RIA client
when they first came to us in the context of
a DOL investigation, “Do you have fiduciary
insurance?” Their response was, “Of course
— we have D&O and E&O coverage.” We
promptly took a look at their insurance poli-
cies. Not surprisingly, they specifically carved
out liability for ERISA claims. While we suc-
scessfully resolved the investigation, it did cost
our client their valuable time, not to mention
legal and other fees that went unreimbursed.

How do you get fiduciary liability cover-
age? It’s relatively simple. It’s likely that your
D&O and E&O broker can help you add a
rider for ERISA fiduciary liability coverage to
your existing coverage. It’s as simple as that.
You’ll want to focus on the claims coverage
period and what happens if you switch insur-
ance carriers. Since ERISA claims and DOL
investigations often relate to activities many
years in the past, it’s essential to make sure
that you have some form of policy — wheth-
er an old-fashioned “occurrence” policy, a
“claims made” policy with “tail” coverage, or
a current “claims made” policy covering prior
acts — that covers prior years.

There are other features to consider with
respect to these policies. For example, what
amount of coverage do you want? Do you
want a “choice of counsel” clause? Just as
advisors can bring unique talents to their re-
tirement plan clients, a good insurance broker
can be invaluable to a retirement plan advisor.

Going forward, should you ever be a
potential party to a lawsuit, or should the
DOL begin an investigation, it’s important to
understand when you are required to notify
your ERISA fiduciary insurance carrier of
a potential claim. Failing to timely notify
them can cause you to lose the benefit of the
fiduciary coverage that you’ve been paying
for. But having the coverage means that legal
expenses (and, in the worst case, settlement
costs) might be covered for you.

Lastly, a good point to remember:
Fiduciary insurance doesn’t just protect you;
it also protects your clients in case something
goes wrong. Here are some key tips
on what to look for.

ERISA fiduciary insurance doesn’t just protect
you; it also protects your clients in case
something goes wrong. Here are some key tips
on what to look for.

By D AVID N. L EVINE

In this era of fee
disclosures, complex
financial products
and complex financial
institutions, there are
many ways an advisor
can get drawn into litigation.”

> David N. Levine is a principal with the Groom Law
Group, Chartered in Washington, DC.
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Helping your clients and their employees plan for their future is a big responsibility. You can count on ADP Retirement Services to provide the support and tools needed to navigate the winding road to retirement success.

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Chief financial officers, HR directors, risk managers and others assume an incalculable degree of risk by accepting an appointment as plan fiduciary to a qualified retirement plan. America’s private pension system is structured to firmly position a stratospheric level of responsibility squarely upon the shoulders of a plan sponsor’s workforce and directors.

At the same time, as global competition continues to compress margins of U.S.-based corporations, the availability of financial and human capital resources are limited. And ERISA-legislated and ERISA-regulated duties are accepted by all, embraced by some — and understood by even fewer.

In a real-life classroom setting at more than 15 programs conducted by The Plan Sponsor University (TPSU), two distinct categories of findings emerged from plan sponsors. As part of the classroom exercise led by elite plan advisors and leading providers, sponsors were asked to define which 401(k) plan features work and which ones don’t. Here’s what we found.

What’s Working in 401(k) Plans?

- **Auto Enrollment.** Plan sponsors who have implemented this feature are among the strongest advocates of auto enrollment based upon the behavioral change they have observed among their plan participants. Thus, there is a huge opportunity for advisors to make a significant positive impact among plan participants and plan sponsors by implementing auto enrollment.

- **Immediate Enrollment.** Immediate enrollment during the employee on-boarding process is strongly supported by those plan sponsors who have overcome the associated management trepidation and operational concerns.

- **Portability.** Portability of participant balances is recognized by plan sponsors as being a key feature contributing to the overall acceptance of 401(k) plans. This feature is repeatedly contrasted with Social Security and defined benefit structures, which remain an unsolved mystery for many Americans. Online access, quarterly statements, direct reporting to participants via third-party custodians and in-person visits from a plan advisor contribute to a level of calm that is absent in Social Security and DB plans.

- **Employer Match.** Active management of the match formula results in a “win-win” scenario. Stretching the max can increase plan participants’ savings rate and stimulate an increase in individual participant balances — and it can be implemented at little or no additional cost to the employer. This strategy requires front-end analysis, strong communication, monitoring and a certain level of trust between advisor and plan sponsor. When stretching the match to stimulate a higher savings rate among plan participants, the intended outcome is to have plan participants increase their own savings rates in order to obtain the full company match.

What’s Not Working in 401(k) Plans?

- **Education.** Traditional education is perceived to have been an abject failure by plan sponsors. This is an interesting self-assessment considering the fact that the source is the same group of people who have been tasked with assuring the success of traditional education: the plan sponsor community. The source in this assessment lends credence to the validity of the assessment. Participant account balances in 401(k) plans today; when measured against a projected future need, result in an unacceptable shortfall for a graying America.

- **Fee Disclosure.** Fee disclosures are too complex for the average trustee or benefits committee member to compute, comprehend or compare with a competitive pricing menu. The years prior to the implementation of 408(b)(2) promised transparency and clarity surrounding fee presentation and fee calculations. But today few plan sponsors can accurately describe plan fees.

- **Turnover.** Turnover within the benefits committee can create a knowledge drain that can be hard to overcome. A company can have a well-managed 401(k) plan today with strong oversight; however, there is rarely depth across benefits committees, and the loss of a single committee member can upset the stability. In particular, few benefit committees incorporate fiduciary education with regularity.

There continues to be a vast array of opportunities for a plan sponsor to make a difference for participants.

> Steff C. Chalk is the executive director of The Retirement Advisor University (TRAU) and The Plan Sponsor University (TPSU).
More than 100 firms have stepped up with their check books, business intelligence, and “can do” attitude to support NAPA, the only organization that educates and advocates specifically for plan advisors like you. NAPA is grateful for its Firm Partners. We hope you appreciate them too.

Should your firm be on this list and enjoy the benefits of NAPA Firm Partnership?
To learn more contact Jeff Hoffman, Sr. Director of Business & Membership Development, NAPA 703-516-9300 x119 · jhoffman@asppa.org

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- Signator Investors
- Transamerica Financial Advisors
- UBS Financial Services
- Wells Fargo Advisors

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- American Funds
- Charles Schwab & Co.
- CPI Qualified Plan Consultants
- DailyAccess
- Fidelity Investments
- Great-West Financial
- ING Retirement Services
- John Hancock Retirement Plan Services
- JP Morgan
- July Business Services
- MassMutual Retirement Services
- OneAmerica
- Putnam Investments
- T. Rowe Price
- Transamerica Retirement Solutions

### RIA
- 401(k) Advisors — Arizona
- Argentus Partners
- CAPTRUST Financial Advisors
- Cooney Financial Advisors
- Dice Financial Services Group
- Direct Retirement Solutions
- EHD Advisory Services, Inc.
- Fiducia Group, LLC
- Fiduciary Consulting Group at PSA
- Fiduciary Consulting Group, LLC
- Gordon Asset Management, LLC
- Graystone Consulting, a business of Morgan Stanley
- HighTower Advisors — Arizona
- Institutional Investment Consulting
- InterServ, LLC
- Karp Capital Management
- LAMCO Advisory Services
- Latus Group
- Longview Financial Partners, LLC
- MayFlower Advisors, LLC
- MCF Advisors
- MillenniuM Investment
  & Retirement Advisors
- Allianz Global Investors Distributors
- American Century Investments
- American Funds
- BlackRock
- Capital Innovations
- Eaton Vance
- Federated Investors
- Fidelity Investments
- Franklin Templeton
- ING Funds
- Invesco
- John Hancock Investments
- JP Morgan
- Legg Mason
- MFS Investment
- Management Company
- Nuveen Investments
- Oppenheimer Funds
- PIMCO
- Putnam Investments
- RidgeWorth Investments
- T. Rowe Price
- Thornburg Investment Management
- Transamerica Funds

### OTHER FIRM PARTNERS
- 401(k) Rekon
- American National Bank of Texas Trust
- BenefitsLink.Com, Inc. / EmployeeBenefitsJobs.com
- Boston Research Group
- Broadridge/Matrix Financial Solutions
- Drinker, Biddle & Reath, LLP
- Envestnet Retirement Solutions, Inc.
- Fiduciary Group
- Fi360
- GROUPIRA
- Integrated Retirement Initiatives
- NAPLIA
- Parnassus Investments
- Pension Resource Institute, LLC
- Retirement Learning Center
- ShoeFitts Marketing
- The 401(k) Coach Program
- The Retirement Advisor University
- The Retirement Readiness Institute
- The Wagner Law Group
- Wealth Management Systems, Inc.
As a recognized leader in providing retirement plan services and target date funds, T. Rowe Price is always exploring ways to innovate and help plan participants better prepare for retirement. The firm has managed the Retirement Funds, its flagship suite of target date funds, since 2002. In August 2013, the firm launched a second series of target date funds, the Target Retirement Funds. Portfolio Managers Jerome Clark and Wyatt Lee discuss this new offering and the firm’s philosophy and approach to retirement investing.

Q: What are the new T. Rowe Price Target Retirement Funds?
A: Like the original Retirement Funds, the new Target Retirement Funds (Target Funds) offer a convenient, one-stop approach to retirement investing. They are designed to address the primary concerns facing retirement investors—accumulating enough money for retirement to sustain an income stream throughout retirement that keeps pace with inflation. They consist of professionally managed, well-diversified portfolios composed of various T. Rowe Price stock and bond funds. The asset allocation for each fund is managed along a “glide path” that becomes more conservative by reducing exposure to stocks as the investor approaches retirement and throughout the retirement period. Both sets of funds are designed so that investors can select the fund that most closely matches their expected retirement date, which is assumed to be at age 65.

Q: How do the Target Retirement Funds differ from the original Retirement Funds?
A: The Target Funds offer a more conservatively designed glide path or asset allocation strategy than the Retirement Funds as they reduce their exposure to equities and increase their exposure to fixed income securities. Both glide paths start with 90% equity allocations (for those 40 years from retirement) and end with 20% equity allocations (30 years after retirement). But in between, the original Retirement Funds sustain a higher stock allocation by as much as 14.5 percentage points than the new Target Funds. At the target retirement date, for example, the new Target Funds will have 42.5% in equities compared with 55% for the Retirement Funds.
Therefore, the new Target Funds may should appeal to those who prefer an investment approach that should incur less volatility or risk near or during retirement, but also less return potential over the long run. As a result of their more conservative strategy, with greater emphasis on reducing market risk, the Target Funds may be more appropriate for those with lower risk tolerance and who expect to withdraw these assets over a more moderate postretirement period.

The original Retirement Funds, which have a “higher equity” glide path or strategy, are more focused on longevity and inflation risks than market risk, or providing an income stream that keeps pace with inflation over a retirement horizon that could last 30 years or longer, and may also offer the potential for greater asset accumulation because of their higher return potential.

While the design of the Target Funds glide path is more biased toward reducing market risk, it is important to note that it does not ignore inflation and longevity risks.

So both sets of funds are designed to help investors accumulate assets prior to retirement and provide an income stream in retirement.

The design of both target date strategies recognizes three key tenets:

- Emphasis on adequate equity allocation prior to and in retirement—both maintain substantial equity allocation at retirement—in order to support sufficient asset accumulation prior to retirement.
- Belief that time horizon and risk tolerance should drive an investor’s asset allocation strategy—both utilize a dynamic glide path that continues to reallocate for 30 years postretirement.
- Use of active management to enhance long-term return potential—both utilize the same underlying T. Rowe Price funds.

We designed both sets of target date funds so that they share the same investment framework, global research platform, portfolio management team, and underlying investments. The key differentiator is the equity allocation leading up to and past the target retirement date.

Q: Why has T. Rowe Price decided to offer these two different series of target date funds?

A: Plan sponsors, consultants, defined contribution advisors, and many investors generally agree with the need to accumulate assets preretirement but may have different views on the appropriate objectives for target date funds at and into retirement. As the target date market has matured, we believe that there is generally a preference for one of two primary retirement strategies for those seeking to keep money in the fund beyond its target retirement date:

- Supporting lifetime income throughout retirement; or
- Supporting income over a moderate post-retirement horizon.

By introducing this second target date strategy, T. Rowe Price will offer a glide path designed to meet each of these two primary retirement objectives.

In essence, we have received feedback from advisors and sponsors saying that they fully subscribe to our fundamental approach to managing target date funds. But their specific plan and objectives may call for a less aggressive approach with a more moderate equity exposure. The Target Funds were designed to address those plans’ investment objectives.

Either way, we continue to believe that the role of a retirement savings plan is to help investors accumulate assets prior to retirement and replace income in retirement. Target date funds should be designed to be supportive of both of these investor needs.

To learn more about our full suite of target date solutions, visit troweprice.com/dc.

The principal value of the Retirement Funds and Target Retirement Funds (collectively, the “target date funds”) is not guaranteed at any time, including at or after the target date, which is the approximate year an investor plans to retire (assumed to be age 65) and is likely to stop making new investments in the fund. If an investor plans to retire significantly earlier or later than age 65, the funds may not be an appropriate investment even if the investor is retiring on or near the target date. The target date funds’ allocations among a broad range of underlying T. Rowe Price stock and bond funds will change over time. The Retirement Funds emphasize potential capital appreciation during the early phases of retirement asset accumulation, balance the need for appreciation with the need for income as retirement approaches, and focus on supporting an income stream over a long-term retirement withdrawal horizon. The Target Retirement Funds emphasize asset accumulation prior to retirement, balance the need for reduced market risk and income as retirement approaches, and focus on supporting an income stream over a moderate postretirement withdrawal horizon. The target date funds are not designed for a lump-sum redemption at the target date and do not guarantee a particular level of income. The key difference between the Retirement Funds and the Target Retirement Funds is the overall allocation to equity; although they each maintain significant allocations to equities both prior to and after the target date, the Retirement Funds maintain a higher equity allocation, which can result in greater volatility over shorter time horizons.

Call 1-800-638-7780 to request a prospectus or summary prospectus; each includes investment objectives, risks, fees, expenses, and other information that you should read and consider carefully before investing.

T. Rowe Price Investment Services, Inc., Distributor.
Target-Date Funds: Achieving a High Adoption Rate

By Jerry Bramlett

"EVERY SOLUTION TO EVERY PROBLEM IS SIMPLE. IT’S THE DISTANCE BETWEEN THE TWO WHERE THE MYSTERY LIES.”
— DEREK LANDY, AUTHOR, SKULDUGGERY PLEASANT

Self-directed DC plans became popular in the early ‘80s, two decades before target-date funds began to appear regularly in DC fund lineups. This would seem to indicate that innovation moves at a slow pace in the DC industry. The challenge today is avoiding taking another two decades to implement an effective means to help individual DC investors adopt this simple asset allocation solution.

Since the emergence of self-directed DC plans, studies have consistently shown that individual investor return is predominantly (over 90%) tied to their asset allocation policy (Brinson, 1986; Ibbotson, 2000). Behavioral finance studies have also found that the majority of DC investors have no idea how to best allocate their DC investments, with most tending to “divide their contributions evenly across the funds offered in the plan” (Benartzi and Thaler, 2001).

An ever-increasing awareness of the near absurdity of what was being asked of participants — that is, to become their own asset allocators — gave rise to target-date funds and other asset allocation solutions. Target-date funds, for now, hold a clear lead in DC plans over other asset allocation strategies. However, for the purposes of this discussion, TDFs will serve as proxy for other asset allocation solutions, such as target-risk funds and managed accounts.

In spite of its popularity as an investment option, TDF adoption rates by participants remain unacceptably low. It is often said by a broad spectrum of plan advisors that 80 to 90% of all DC participants should be invested in structured asset allocation programs such as TDFs. These anecdotal surveys are supported by academic research which has found that, for example, “Using a rich new dataset on 1.2 million workers in over 1,500 plans, we find that most 401(k) plan participants are characterized by profound inertia.” (“The Inattentive Participant: Portfolio Trading Behavior in 401(k) Plans,” 2006).

Target-date funds represented approximately 16% of DC assets at the end of 2012. If balance funds and target-risk suites are included, that number increases to 25%. Managed accounts add another 2%. In total, less than 30% of DC assets are invested in asset allocation funds or programs (McKinsey, 2010; Cerulli, 2012 and Callan, 2013).

Less than a 30% adoption rate of asset allocation solutions is far below what most plan advisors believe to be optimal. Taking into account that 36% of DC plans have an auto-enrollment feature (DCIA, 2013) and

Using the enrollment form, TDFs can be presented so that participants must choose to either select a single TDF or be their own asset allocator.
In spite of its popularity as an investment option, TDF adoption rates by participants remain unacceptably low.

In this communication structure, participants see themselves as essentially having two investment choices that are presented in a binary fashion:

- Door A: build their own asset allocation strategy
- Door B: invest in a single TDF

To make this decision, participants need to understand only two things: (1) the importance of asset allocation; and (2) whether they feel qualified to manage their own allocation and, thus, effectively create and manage their own target-date glide path. Most importantly, this enrollment structure does not allow a DC investor to invest in more than one TDF unless they choose to be their own asset allocator. It is also important to note that, in this structure, nothing is being taken away from the participant. Instead this process simply clarifies their choice.

If DC investors choose Door A, then they are directed to another enrollment worksheet where they will allocate their plan accounts in the plan’s investment options.

If the investors choose Door B, they are directed to an enrollment form that is populated with that choice and, once authorized, they are done.

It really is just that simple.

Jerry Bramlett was the founder, president and CEO of The 401(k) Company; and president and CEO of BenefitStreet. Bramlett and Peter Lynch, vice chairman of Fidelity Investments, ultimately acquired the assets of BenefitStreet and founded a new firm, NextStepDC, which was eventually sold. Currently Jerry is engaged in industry consulting and preparing for his next venture.

typically default participants into TDFs, the voluntary uptake of TDFs is substantially lower.

Just as the “set and forget” principle at work in the structure of TDFs has made it easy for DC investors to establish a long-term investment strategy, what is needed is an equally simple strategy to enable participants to adopt these solutions. Unfortunately for most participants — even those with access to TDFs — there remains, at the time of enrollment, a confusing DC fund lineup. This makes it difficult for most investors to experience the clear distinction that exists between a single asset class fund and an asset allocation fund.

The most important challenge in ensuring that target-date funds have a high adoption rate is to make certain that participants view the selection of a single TDF as an all-in-one investment strategy. A recent survey reported that only 38% of target-fund investors and 27% of non-target date users understand that a TDF is intended to serve as “an all-in-one, hands-off investing” vehicle (ING, 2012). The majority of DC investors with access to TDFs view them as just another investment option that are to be mixed with other options. Understanding this fundamental fact points toward the core challenge as it relates to increasing TDF adoption.

It is vitally important to present TDFs in such a way that the DC investor experiences the selection process as one in which there is a clear binary choice to be made:

- choose to be one’s own asset allocator
- and, thus, be responsible for creating a custom mix from the available core asset classes; or
- select a single TDF.

This message can be a thread that runs throughout the enrollment literature. The reality, however, is that most DC investors do not read through the communication materials. Research has shown that even with the use of financial seminars, very few DC investors actually make any changes to their investment election (Madrian and Shea, 2001). Consequently, teaching how to allocate among various asset classes is mostly a lost cause (Benartzi and Thaler, 2007).

The one document that DC investors must read, and the one place where they have to commit to a decision, is the enrollment form that contains the investment allocation. An effective solution is to have an explanatory page overlaying the enrollment form that creates an unmistakable understanding as to the investment choice being made. If the enrollment is web-based, this cover page can be linked to a prepopulated enrollment page that only requires final authorization. If designed correctly, the adoption rates of a single TDF as an all-inclusive investment choice can be expected to reach as high as 80 to 90% among those DC investors who enroll.

The communication framework depicted above has been used in the enrollment of over a half million DC investors. This design has proven to be highly effective in helping DC investors adopt all-encompassing asset allo-
Consider the following:

• Have you found that a plan can be fully compliant with fiduciary requirements and still not produce what you believe to be appropriate participant outcomes?
• Do you question whether legislators and regulators should be defining professional standards for the retirement industry?
• Do you believe many of your competitors have a lax attitude towards integrity?
• Has the love gone out of your relationship with fiduciary responsibility?
• Are you suffering from fiduciary fatigue, and are your plan sponsors suffering from regulatory weariness? If you answered “Yes” to the above questions, you’re ready for the Stewardship Movement.

We are in state of transition in which old methods, strategies and approaches no longer seem to work, and no longer seem to inspire us. I believe we are at the end of the 25-year-old fiduciary movement, and at the forefront of the Stewardship Movement.

Stewardship is the passion and discipline to protect and promote the long-term well being of others. It is a voluntary act and implies a covenant to do the right thing, with the right people, at the right time. Simply stated, with a fiduciary standard, you have to; with a stewardship standard, you want to.

Being a Financial Steward can further be summed up in three words: inspiration, ethos and engagement.

Inspiration

ERISA and DOL regulations are based on negative motivation — comply with the regulations or face serious consequences. How inspiring was the implementation of 408(b)(2)? Furthermore, we have discovered that being in compliance with federal regulations is not enough to ensure appropriate participant outcomes. Something more is needed.

If you desire to make positive, material changes in the way your plans are managed, you need to take on more of a leadership role — you need to become a point of inspiration. Therein lays our definition of leadership: the ability to inspire others.

Central to the theme of inspiration is the continuum of three elements — character, competence and courage. Most advisors in our industry possess the traits of the first two elements — character and competence. What concerns me is the third, courage — especially the moral courage to expose those who have not been honest.

There is an excellent video of the Commanding General of the Australian Army admonishing his troops for tolerating inappropriate behavior. The quote from his speech, which has ignited the leadership community, is: “The standard you walk by is the standard you accept.” (https://www.youtube.com/watch?feature=player_detailpage&v=QaqpoeVgr8U)

When we combine the elements of character and courage, we define integrity, another essential component of inspiration. A person cannot be inspiring if they lack integrity. Unfortunately, as with moral courage, integrity seems to be waning. In the second annual ethics survey conducted by Labaton Sucharow, the law firm reported the following results:

• 23% of the respondents reported that they had observed firsthand wrongdoing in the workplace;
• Only 36% believe Wall Street has changed for the better since the passage of Dodd-Frank;
• 28% feel that their organizations do not put the interests of clients first; and
• 36% of the respondents with less than 10 years of experience believe they will have to engage in misconduct in order to get ahead.


The Stewardship Movement is about your leadership role in being a point of inspiration. Your effectiveness is dependent
Stewardship is the passion and discipline to protect and promote the long-term well being of others.

Ethos

Ethos is an ancient Greek word meaning “character.” The Greek philosopher Aristotle wrote that you can tell a lot about an institution’s character by examining its leadership behaviors, core values and decision-making process. Today, we would use the terms leadership, stewardship and governance.

Simply stated: all great organizations have a well-defined ethos.

I first discovered “ethos” when I took an 18-month “sabbatical” to return to the Coast Guard to head the newly established Institute for Leadership at the U.S. Coast Guard Academy. One of the key projects I worked on was to find a concise answer to the question: “Why was the Coast Guard able to put up an appropriate response to Hurricane Katrina, when nearly every other government agency failed?” I soon discovered the concise answer: The Coast Guard has a well-defined ethos. From the senior-most officers to the lowest-ranking enlisted personnel, everyone knew what was expected of them. No one needed to wait for orders; no one needed to be told what to do. They just did it! And when they encountered a situation that wasn’t in the book, which often was the case, they improvised. They acted without the fear of retaliation or being second-guessed by superiors.

When we talk about developing a corporate ethos, we’re not just talking about your own organization’s ethos; we’re also talking about the corporate ethos of your plan sponsor clients. There is mounting evidence to suggest that companies with a well-defined ethos also have great retirement plans, and will likely produce great participant outcomes. Unfortunately, these companies are in the minority. The vast majority of companies do not have a well-defined ethos and their mission and value statements (if they even have one) often are not genuine, lacking both currency and authenticity.

The Stewardship Movement is about your leadership role in helping plan sponsors to align the goals and objectives of the pension plan with the ethos (corporate culture) of the organization.

Engagement

Engagement is a relatively new executive power word. Warren Cormier of the Boston Research Group (and fellow columnist for NAPA Net — The Magazine), first introduced the concept to me last year. With engagement there are now three ways to define your relationship with clients:

- by the activities outlined in your services agreement;
- by your registered status (broker versus advisor); and
- by your preferred level of engagement.

What does it take to have a fully engaged investment committee or board? Three things: inspiration, ethos and purpose. Notice how engagement builds upon the previous two elements — inspiration and ethos. If there is nothing inspiring about the work of the committee/board, the members won’t engage. If the committee/board is lacking leadership, stewardship or governance, there will be false starts and confusion. And if there is no defined purpose, there will be anxiety and frustration.

If we were to build an Engagement Scale, it may look like the following: One end of the scale would be represented by stewards (high engagement). In the middle would be trustees. In turn, one end of the scale could be represented by a Suitability Standard, and the other end by a Stewardship Standard. In the middle could be a Fiduciary Standard.

Being a Financial Steward means broadening and deepening the relationships you have with key clients. It’s about engaging as a key advisor to the entire C-suite, not just the investment committee.

Donald B. Trone, GFS, is the president of the Leadership Center for Investment Stewards and the CEO/chief ethos officer of the 3ethos. Don was the first director of the newly established Institute for Leadership at the U.S. Coast Guard Academy, founder and past president of the Foundation for Fiduciary Studies and principal founder and former CEO of fi360.

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Transitioning Broker Dealers

Is making the move to a new broker dealer the right choice for you? What factors are at play in the decision to make a change — and in making the move itself?

BY ELAYNE R. DEMBY
The vast majority of investment advisors are generalists, with far fewer focusing their business on qualified plans. Of 300,000 advisors actively selling to the public, about half have at least one retirement plan, according to research from The Retirement Advisor University (TRAU) in Jupiter, FL. Approximately 75,000 active advisors have at least three plans, and there are about 15,000 advisors with at least five plans. Only 5,000 advisors are retirement plan specialists who have at least 10 plans with a minimum of $3 million in retirement plan assets, according to TRAU, and just 1,500 have at least 20 plans and $100 million in assets.

Industry watchers say that, as new rules and regulations come into play, more retirement plan advisors will switch to broker dealers that are better equipped to support the qualified plan business. In particular, the 408(b)(2) rules have created a trend of retirement plans switching from generalist investment advisors to retirement plan specialists because of its requirement that advisors must declare whether their services make them a fiduciary. “There is definitely specialization occurring in the industry, as more plans move to advisors whose primary business is servicing retirement plans,” says Randy Long, managing principal at SageView Advisory Group, an investment advisory firm that services more than 500 retirement plans (98% of firm business), with over $22 million in assets under management.

As more plans move to retirement plan specialists, experts believe that the number of retirement plan specialists with at least 10 plans will double to 10,000. There is a tremendous demand for retirement plan specialists, as more plan sponsors understand that they and their participants need more help and only experts can help them. Therefore, many of the 75% of plan sponsors who now are working with advisors with fewer than five plans (see sidebar) will be move to retirement plan specialists.

Consequently, retirement plan specialists are now looking for specialized support and services from their broker dealers. They’re seeking firms that understand the retirement business and support it as a separate business line. Long’s firm
Smith says that because his firm had a good relationship with their previous broker dealer, they were open and honest and told them upfront that they were leaving. “We shared our reasons for leaving because we thought we owed it to them after 23 years,” he says, “and discussed the transition plan.” The old broker dealer was not surprised, he says, but they did attempt to keep them in the fold. Smith, however, realizes that a similar course of action may not be available to other advisors making a switch. “It would depend on the relationship,” he says. “Some broker dealers can make it difficult.”

Smith’s actions were the exception to the rule. Transitioning broker dealers is usually a secret thing, done in the middle of the night, says Fred Barstein, who counsels advisors through the process of evaluating whether to transition and making the transition. Generally, no advisor would ever let you know that they are considering moving, says Barstein. Even after the transition, he says, as was the case with Smith, few want to publicize their switch.

There are a number of reasons for the secrecy, says Barstein. Perhaps the biggest reason is that the wire house may try to poach clients from the advisor prior to their leaving. “Even if they don’t start calling clients, they may not give the advisor good service,” he adds.

There was a time, says Barry Papa of Raymond James, when if an advisor tried to change wire houses, the previous wire house would get a restraining order preventing the advisor from soliciting former clients. In 2001, however, many wire houses signed an agreement which provides that if an advisor follows certain protocols, then they can solicit their books of business after the transition. If a wire house is a party to this agreement, the transition is much easier for the advisor, says Papa. But if the previous wire house is not in the agreement, and there is a non-compete clause, things can be much more difficult.

Of course, says Bohanan, there is some business that an advisor may want to leave behind. Retirement plan advisors may want leave the smaller plans at the bottom of their books with the old firm, he says, particularly if managing these smaller plans takes a fair amount of time. Typically, advisors only bring 80-90% of their book with them to the new firm.
has not made a switch, but he reports seeing more advisors moving because of new rules and perceived conflicts of interest for advisors affiliated with broker dealers.

The problem, says Smith, is that most broker dealers only “dabble” in ERISA, leaving advisors who specialize in retirement plans underserved. A lot of smaller, independent broker dealers provide almost no support, he says, and many of them are exiting the retirement plan business altogether.

Historically, most broker dealers have had expertise on the retail side but not so much on the retirement plan side, agrees Lisa G. Kottler, ALF®, Senior Vice President of Retirement Services, Corporate Benefits, NFP Insurance Services in Austin, TX. Yet, while lack of a complete understanding of the retirement plan business may not have been a huge drawback in the past, new rules and regulations now make working with a broker dealer who knows and understands the qualified plan business more critical for advisors.

Additionally, in the retirement plan space, there are retirement plan advisors who initially built up a wire house business but now are looking for more freedom, says Bo Bohanan, director of retirement plan consulting at Raymond James. Not all broker dealers, however, fully support the hybrid model of advisors who are also registered investment advisors. Those advisors, Bohanan says, want greater product choice options and greater ability to assume fiduciary status. Raymond James, along with Wells Fargo Advisors, is one of the few national broker dealers that support the independent 1099 model as well as the fully supported employee wire house model.

Evaluating Whether to Leave

Transferring to a new broker dealer is a decision that should be made with a great deal of consideration and due diligence. Transitioning is very labor intensive, so advisors should carefully consider whether making a switch is right for them. Advisors should also evaluate the cost of the transition and consider the impact that going through a transition will have on their economics, says Peter Vincent, former director and head of advisor programs at Bank of America Merrill Lynch.

There are a number of reasons why advisors may believe that moving is the best choice. At the top of the list is whether or not the current broker dealer allows its advisors to assume fiduciary roles to the plans they service. Many broker dealers still do not allow their advisors to acknowledge fiduciary status, says Long, or to act in a 3(21) or 3(38) capacity. With more and more qualified plans seeking advisors to take on fiduciary status, advisors may have to consider moving if their current firm does not allow it, simply to remain competitive.

Lack of understanding of the retirement plan business and lack of adequate support and products is another reason to leave. If a retirement plan advisor is with a broker dealer that has no retirement plan expertise and inadequate support and services, then that advisor should consider looking at one that does, says Kottler.

The culture of the current broker dealer may also not fit with the advisor’s style, Bohanan notes. Broker dealers can often be quite specific in telling advisors how they should run their businesses, he says, including limiting what markets they can sell in. But advisors may want to do things differently. “The broker dealer’s way of doing business becomes [the advisor’s] way of doing business, and it probably should be the other way around,” says Smith.

Advisors should also evaluate their own commitment to the retirement plan space and the commitment on the part of their current firm to the retirement plan business, says Vincent. If an advisor wants to grow in the retirement plan space, he says, then they should evaluate whether the current model they’re with helps growth or hinders it.

Smith recommends taking all emotions out of the decision. Don’t make the decision lightly, and don’t let it drag on too long. Smith says his firm spent two years doing due diligence but probably could have made a decision after one year.

Advisors should also speak to other advisors to see what their experiences are like with their broker dealers, says Vincent. Reaching out to advisors who have made a transition themselves is a good idea too.

In the end, the decision to change broker dealers has to really benefit the advisory firm, clients and the new broker dealer, says Barry Papa, director, AdvisorChoice Consulting, Raymond James. Transitions are not

As new rules and regulations come into play, more retirement plan advisors will switch to broker dealers that are better equipped to support the qualified plan business.”

**TRANSITION RISKS**

For retirement plan advisors, says Raymond James’ Bo Bohanan, the risk exists that clients may think that the transition is a good time to go out to the market and shop for a new advisor. Clients may view the transition as an opportunity to put out requests for proposal to look for a new advisor.

Another risk is potential lost opportunities. Doing a transition can be time consuming, says Lisa Kottler of NFP, perhaps causing the advisor to take an eye off the ball when it comes to new client prospecting.
FINRA REVIVES BROKER BONUS DISCLOSURE PLAN

Last month, FINRA’s board took up the issue of whether advisors will be required to report bonuses received when switching broker dealers. The issue had been on the agenda for their July board meeting, but scheduling delayed its consideration.

The disclosure is considered to be important to a client that’s trying to decide whether to move with their advisor to a new broker dealer. It’s uncertain whether such a disclosure would dampen broker movement, or whether it would affect the number of clients who choose not to move to their advisor’s new firm.

easy, he says, but advisors often find they can improve their lifestyles by going to a new firm.

What to Look for in a New Broker Dealer

Once the decision is made to move, the next step is finding the right broker dealer to move to. As part of the process of finding a new broker dealer, advisors have to take a hard look at their practice and have a good sense of the services delivered to the clients, says Smith. “You can’t know enough about your business before making this decision,” he says.

If an advisory firm is unhappy with their current wire house, an assessment should be done to determine what caused the unhappiness and whether another wire house would be a better fit, echoes Papa. For example, an advisor may want more independence, more control over business operations, the ability to assume fiduciary status or access to open architecture platforms. Issues such as technology, says Papa, can be a big irritant, as can other issues, such as how payouts and branding are handled if advisors want to build their own brands.

Once an advisor really figures out why he is unhappy and what he wants to do, he should discuss options with the recruiting departments of firms and visit firms to find one that meets his needs. Discuss the products and support that are available. Advisors should also talk to other advisors to see what other firms offer.

When reviewing alternative broker dealers, retirement plan advisors should review the staffing devoted exclusively to the retirement plan business, note the experts. According to the NAPA Net Broker Dealer list (see page 25), only 40 broker dealers out of thousands in the United States have at least one person to service advisors in the DC plan market. Even then, many of those 40 broker dealers are still restrictive in terms of the education and certification needed for their advisor to assume fiduciary status.

The retirement plan business can be labor intensive, says Kottler, so finding a broker dealer that has a scalable due diligence process, a streamlined RFP process and staff that keeps clients up to date on the latest legal/regulatory issues is key. The retirement plan rules differ from the SEC rules, notes Kottler, which require compliance with ERISA and DOL regulations. NFP, she says, has a compliance department that can support plan advisors and their clients by answering tough legal and regulatory issues, as well as tools to help with RFPs.

Long agrees that advisors have to look at the specialized support the broker dealer is providing and if it can support a hybrid RIA relationship on their platforms. Finding out how the broker dealer helps the advisor with compliance issues such as 408(b)(2) disclosures is critical, he says, as is support for participant education and whether or not the broker dealer allows advisors to assume fiduciary status.

How the broker dealer helps advisors to grow their qualified plan practice is also an important consideration, says Long. For example, Merrill Lynch helps plan advisors find new retirement plan business by helping move retirement plans from advisors who do not focus on ERISA plans to those who do. Advisors should also re-

Making the Transition

Actually going through the transition from one broker to another was a “nightmare,” according to Smith, and very disruptive to his firm’s business. Smith says his firm lost about six months of staff time in the move and approximately 20-25% of revenue over the six months it took to get back to business as usual.

Transitions are a major disruption to current business operations because legal requirements require advisors to move each client one piece of paper at a time. The only solace for retirement plan advisors is that transitions are easier on the qualified plan side than on the retail side. Generally, says Papa, retirement plan advisors have fewer clients than retail advisors do, so the process can be shorter.

While Smith’s transition took six months, both Papa and Vincent say advisors can typically expect business to be back to normal in approximately three. After that, advisors may still be getting used to new technology and new systems, says Papa, but in terms of growing business it will pretty much be back to normal. How long the process actually takes depends on the size of the advisor’s book of business and the size of the clients, says Papa. Smaller plans are usually easier to transition because the decision maker is usually the business owner, while larger plans have committees that can take longer to get the necessary paperwork done.

Once the decision is made to move, the advisor needs to get organized and create a game plan, says Papa. Clients will need to be contacted and meetings arranged to explain the transition and sign paperwork. “During the transition, there’s a lot of paperwork to fill out and a lot of time spent communicating with clients,” says Papa. Learning new systems is also part of the transition, he says, and advisors working as RIAs will also need new contracts with clients.

Smith says the reality is that many clients do not have a relationship with the broker dealer, so the transition is not a major factor for them. His firm’s client
communications spelled out the reasons for leaving, he says; for the most part, clients were supportive. The biggest impact on clients, he says, was all the paperwork that had to be filled out to make the transfer.

Advisors should turn to their new firms to get help. Firms like Raymond James and Merrill Lynch have transition departments that assist advisors in making the transition by answering any questions and getting paperwork done. The process works best, says Vincent, when advisors get involved early on to understand who they are, where they want to go, and which products and services they provide.

Having gone through a transition, Smith has several recommendations for advisors who are considering doing so too. Smith says his top recommendation would be to assign someone on the team to be the transition coordinator. Other recommendations include:

1. Have current client information that is as organized as possible before starting the transition. “Make sure you have lists of all your books of business, all your clients and all your accounts,” says Smith.

2. Map out the transition, and have a transition calendar. Establish a calendar for paperwork, and make sure the transition plan calendar aligns properly with business operations. “If you are in the qualified plan business, you do not want to try to transition in the 4th quarter of the year, because the transition would be a huge distraction. Do it when the team can handle it,” says Smith.

3. Read the contract with the current broker dealer, and know what information your firm owns and what the broker dealer owns.

4. Work with the new broker dealer’s compliance office, and question everything. “You can’t ask the new broker dealer enough questions,” says Smith.

5. Set expectations for the team and explain why the transition is necessary. “Understand the emotional stress on team members who will be putting in a lot of extra hours,” says Smith.

At the end of the day, many advisors who look into transitions may decide to stay with their current broker dealers. “Probably more advisors come to this conclusion then leave,” says Smith. Despite all the work, Smith says the transition was a good one for his firm. “We focus on the long term,” he says. “In the short term it didn’t feel like the right thing during the transition, but now we’re more comfortable. It was short-term pain for long-term gain.”

Smith also says that going through the process helped his firm. “It causes you to take a very comprehensive look at the business,” he says, “and it allows you to really analyze your operations.” Smith says that the evaluation process forced his firm to better understand their revenues, expenses, and firm operations as well as to really comprehend what a broker dealer can do for his firm.

» Elayne R. Demby is a freelance writer in Weston, CT.

Broker dealers can often be quite specific in telling advisors how they should run their businesses, including limiting what markets they can sell in. But advisors may want to do things differently.”
Meet the five people in Washington who will have the biggest impact on the future of the retirement industry.

By Fred Barstein
ANY PLAN ADVISORS, ESPECIALLY THE MORE EXPERIENCED ONES, GRUMBLE THAT THE GOVERNMENT IS “MESSING WITH THEIR BUSINESS.” With good intentions, these plan advisors believe that, if left alone to conduct their business without government interference, everyone would be better off.

But these advisors are forgetting an essential fact: that 401(k) plans and related retirement programs are a wholly owned subsidiary of the federal government. Without the tax deferral on contributions to an employer sponsored plan under the tax code, the system would crumble.

So complaining obviously will do no good, other than to make those advisors feel better — for the moment, that is. After they get over it, the next question is what to do about it. Certainly, learning the ins and outs of ERISA plans is required, as is keeping up with all the changes that result from legislative and regulatory activity in Washington. But beyond that, some plan advisors would like the opportunity to actually bring about change, so that a retirement system that the rest of the world covets — and that is performing better than the legislators who created Code Section 401(k) could have imagined — can get better.

The awareness that the voice of plan advisors needs to be heard in Washington was the impetus behind the creation of the National Association of Plan Advisors. It also may be the reason that NAPA has become one of the fastest growing associations in history, with nearly 7,000 members as of September 2013, a month shy of its second anniversary. As NAPA’s CEO and Executive Director Brian Graff succinctly puts it, “Better to be at the table than on the menu.”

If plan advisors feel like they have a target on their back, they are probably paying attention. Legislators and regulators have recently awakened to that fact that 85% of plans with 25 to 10,000 employees use an advisor, according to recent research by Fidelity’s DCIO group. The financial services industry is not that far ahead of Washington — most broker dealers do not have a clue about the needs of qualified retirement plan advisors, with fewer than 50 firms dedicating at least one person to support them and fewer than 50 money managers dedicating sales consultants to work with plan advisors.

So for the first time, plan advisors who want to effect change rather than react or complain have a group that speaks for them and a way to engage with Washington. The first step in the process of engagement is understanding the issues and the people in Washington who have the most influence over them.

That’s why we created our list of the 25 most influential government officials affecting retirement plans — and why this cover story of our inaugural issue, which reviews the major issues at stake and the five people in Washington who are most likely to affect them, is so important.

Like the defined contribution market, it all comes down to people — and, just like our industry, it’s surprising how few really matter. It’s important for plan advisors to understand not just the issues, but also the people driving them, to get a sense of the directions they may take.

There are four major issues on the table in Washington affecting plan advisors. Following are the issues and the officials who are the “power hitters” in each area.
1. Redefinition of fiduciary — DOL’s Phyllis Borzi
2. Uniform fiduciary rule — SEC’s Mary Jo White

Many are concerned that the uniform fiduciary rule being considered by the SEC will not be compatible with the DOL’s new definition, which could cause further confusion in the market.”
Redefinition of Fiduciary Rule: Phyllis Borzi

The DOL's proposed expanded definition would force advisors to decide if they can (or want to) serve as fiduciaries, which would dictate their business model and compensation structure. Rather than the current five-part test, an advisor would be a fiduciary under the expanded definition if it renders individualized advice and that advice is considered by the investor when they make investment decisions — which includes practically all advisors currently working on qualified plans and IRAs. If the advisor is a fiduciary, then compensation must be level.

While the proposed rule has been delayed, the DOL is moving ahead; the rule is expected early next year. It may force most advisors who work on rollovers to be fiduciaries. In turn, this could force out commissioned advisors, who will not easily be able to receive level compensation.

From the DOL's perspective, the issue is about focusing on putting clients' interest first. Though the DOL claims that they have detailed economic analyses on the cost/benefit effects of the rule, there is stiff opposition ahead. For example, the Congressional Black Caucus has expressed concerns about the effects of the proposed rule on lower-income investors, many of whom may lose access to brokers who are unable or unwilling to serve as fiduciaries under the rule.

In addition, many are concerned that the uniform fiduciary rule being considered by the SEC (see below) will not be compatible with the DOL's new definition, which could cause further confusion in the market. For example, the House Committee on Financial Services has approved a bill introduced by Rep. Ann Wagner (R-MO) to slow down the rulemaking process at both the DOL and the SEC on the definition of a fiduciary and force the two agencies to act in concert.

Uniform Fiduciary Rule: Mary Jo White

Under the Dodd-Frank Act, the SEC has the power (but not the obligation) to create a uniform fiduciary rule. Currently, advisors working as RIAs are considered to be fiduciaries, while brokers working under FINRA jurisdiction can work under the so-called “suitability” standard.

Responses to the SEC’s “Request for Information” were submitted last July. In their RFI, the SEC Staff outlined two primary objectives:

• to address, among other things, retail customer confusion about the obligations broker dealers and investment advisers owe to those customers; and
• to preserve retail customer choice without decreasing retail customers’ access to existing products, services, service providers or compensation structures.

To address retail customer confusion, the first SEC staff recommendation was that the Commission “engage in rulemaking to implement a uniform fiduciary standard of conduct for broker dealers and investment advisers when providing personalized investment advice about securities.”

Sounds simple. But like most things in Washington, it isn't. Not only are there concerns about conflicts with the DOL's proposed rule, there is concern about the economic effect of a uniform
Mary Jo White has jurisdiction over RIAs and great influence over all financial advisors. White earned her reputation as U.S. Attorney for the Southern District of New York from 1993 to 2002, where she focused on complex securities and financial institution fraud. She went on to lead the litigation department of a large New York law firm before being confirmed as SEC Chair in April 2013. White’s influence over plan advisors in particular could make an impact as her agency tackles the issue of uniform fiduciary standards for financial advisors, just as the DOL is pushing ahead with its own rule. With the appointment of Thomas Perez as Secretary of Labor this summer, followed closely by the two agencies signing an official agreement to work closely together on matters of mutual interest, the SEC could change how plan advisors interact with their retirement plan and IRA clients.

fiduciary rule, which Rep. Wagner’s bill addressed. Additionally, establishing a uniform fiduciary standard for broker dealers and investment advisors within the parameters of Dodd-Frank could actually cause more confusion among retail customers when selecting investment professionals.

According to Brian Graff, Executive Director/CEO of NAPA and ASPPA, “The 2010 financial services reform legislation, more commonly referred to as Dodd-Frank, explicitly provided that any uniform fiduciary standard imposed by the SEC cannot prohibit commission-based compensation and cannot require that the advisor continuously monitor investments.” These provisions were included out of congressional concern that investors with smaller amounts of assets and lower incomes would otherwise not have access to the services of an advisor, Graff explains.

The SEC’s proposed uniform fiduciary rule would create two types of fiduciaries:

- “traditional” fiduciaries (e.g., RIAs) who do not receive commissions and have a duty to monitor their clients’ investments; and
- “new” fiduciaries (e.g., brokers) who are free to continue to accept commissions and are still not required to monitor investments.

While Graff agrees that average investors need better information about the role of their advisors, he is concerned that “the kind of ‘non-uniform uniform’ fiduciary standard being considered by the SEC will certainly not accomplish that, and in fact will lead to even more confused investors.” Therefore, the recommendation of ASPPA and NAPA is a standardized disclosure given to investors before engaging an advisor (and annually thereafter). “One that explains what standard is applicable to the advisor (i.e., fiduciary or suitability), what services that entails, and how the advisor is compensated would give investors the right amount of information so they can make the choice that works best for them,” says Graff.

It’s not certain what the next step will be, or when it may occur. During testimony in late July at a Senate Banking Committee hearing, SEC Chair Mary Jo White indicated that the rule was on the “back burner.”

Tax Reform: Rep. Dave Camp

In an effort to close the budget deficit, congressional tax writers are looking at all deferrals and deductions to determine how each can contribute to either increasing revenue or lowering costs. As part of that exercise, the tax incentives for retirement saving are being examined closely.

For its part, the Obama administration proposed a cap on those deductions for people whose retirement benefits reach an estimated $205,000 in annual benefits or $3.4 million at the prevailing interest rates when the proposal was made in April 2013.

On the other hand, Rep. Dave Camp (R-MI), Chairman of the House Ways and Means Committee, and Sen. Max Baucus (D-MT), chairman of the Senate Finance Committee — the two most influential taxwriters in Congress — have stated that they intend to take a “‘blank slate’ approach to tax reform. Their plan for tax reform is to begin with a tax code without all of the special provisions in the form of exclusions, deductions and credits and other preferences that some refer to as “tax expenditures.”

This approach could prove to be catastrophic for the nation’s retirement system, according to Graff. Eliminating the tax deferral incentive “would destroy retirement security for working Americans,” Graff believes. “The benefits of this deferral incentive are very real, and the revenue that would be gained by eliminating it is not. Every dollar of retirement savings excluded from income today will be included as income when it is paid out in retirement. Treating the retirement savings income deferral like a permanent exclusion is terribly misleading, and could lead to bad policy decisions,” says Graff.

Graff makes a strong case that the workplace retirement plan system works for middle-class Americans, noting that workers earning $30,000 to $50,000 per year are 14 times more likely to save at work than on their own. He also emphasizes that the tax incentive for retirement savings is a deferral, not a deduction or
an exclusion. Failure to account for this deferred tax revenue, he argues, overstates the retirement tax expenditure estimate by more than 50%.

In addition, because of non-discrimination rules, retirement plan tax incentives are more equitably spread among lower and middle income taxpayers than are other tax incentives like capital gains or mortgage deductions. Judy Miller, ASPPA’s Director of Retirement Policy, estimates that in 2012, more than 70% of the defined contribution tax benefit went to families earning under $150,000. Miller also notes that the majority of tax benefits go to middle class families.

If we have a retirement crisis now, it’s hard to imagine that it will get better if the tax incentives to save are cut.

**Regulation of IRAs: Sen Elizabeth Warren and Rep. George Miller**

IRAs accounted for $5.1 trillion in 2012, according to the Investment Company Institute, growing 10.5% last year. DC plans and IRAs are growing at the expense of DB and government plans, accounting for 54% of retirement assets in 2012 — up from 51% in 2007. During that same period, DB plans and government plans both declined more than 20%.

As Baby Boomers start to retire, they are rolling DC and other retirement assets into IRAs — what some call the beginning of the greatest transfer of wealth in history. It’s likely that these individual retirement plans will start getting the same levels of scrutiny and attention from regulators that ERISA plans have received for years.

In the spring of 2013, an undercover investigation by the Government Accountability Office added fuel to the fire. The GAO study looked into misleading fee disclosure and marketing practices by IRA service providers regarding IRA rollovers from 401(k) plans. Undercover investigators from the GAO contacted 30 IRA providers, posing as workers about to change jobs. Seven of
discuss fees may not be fair and balanced, and could be misleading.” Specifically, FINRA is concerned about what it characterized as overly broad language about no-fee (or “free IRAs”) that leaves out the fact that there may be fees for opening, maintaining and closing accounts and fees for ancillary services, as well as fees imbedded in the products. Highlighting services that are provided free of charge without listing services for which fees are charged was also cited as a concern.

With an issue as far-reaching as IRAs — and that has major implications for most American families — it’s hard to imagine that Congress and the regulatory agencies with jurisdiction over IRAs will not act decisively to close any informational gaps and misleading practices.
The Partner Corner connects plan advisors with leading record keepers and DC Investment Only (DCIO) firms — highlighting DCIOs’ services, resources and positioning in the market, as well as territory maps for their sales and support people. Value added services and white papers also may be accessed by topic. Currently, only NAPA Firm Partners at a certain membership level have the opportunity to publish a basic or enhanced listing in the Partner Corner.
Firm Profile

American Century Investments® is rooted in building relationships — the kind of long-term relationships that can only happen when there’s trust … when there’s a consistent track record of delivering results … and when the ultimate measure of our performance is our clients’ success.

At American Century Investments, our commitment is focused on delivering superior investment performance and developing long-term relationships with our clients. Our track record of performance, our business model and the legacy of our founder set us apart in the industry.

Performance Focus for More than 50 Years

- Founded in 1958 by Jim Stowers, Jr., we relentlessly focus on delivering superior investment performance and building long-term relationships with our clients.
- Our headquarters is in Kansas City, MO, with offices in New York City; Mountain View, CA; and London, England.
- We take an active team-based approach to managing equity and fixed income investments.

Pure Play Business Model

- Money management is all we do.
- No ancillary businesses distract our focus, stretch our resources or compete with our clients.

Privately Controlled and Independent

- Our owners maintain a long-term view when it comes to investing and our company. We are not beholden to quarterly earnings pressures. This enables us to stay true to the long-term objectives of our investment strategies, offer reliable diversification and align with the best interests of our clients.
- We’re from Main Street, not Wall Street. We take an independent view, guided by our commitment to do the right thing for our clients. We’re one of the few major asset managers untainted by ethical lapses.

Profits With a Purpose

- Through our ownership structure, more than 40% of American Century Investments’ profits support research to help cure genetically-based diseases including cancer, diabetes and dementia.
- With their personal fortune, American Century Investments founder Jim Stowers Jr., and his wife, Virginia, founded and endowed the Stowers Institute for Medical Research, a world class biomedical research organization dedicated to improving quality of life by researching and uncovering the causes, treatment, prevention and cure of genetically-based diseases. Both Jim and Virginia are cancer survivors.

Investment Strategies for Retirement Plans

Our management teams are guided by well-defined, repeatable investment processes and are dedicated to fully invested, active management approaches. American Century Investments offers a full menu of investment options ideal for a variety of retirement plans.

- Team-based investment management approach
- Proven long-term risk-adjusted performance in all asset categories
- A variety of pricing options and flexibility to meet your needs
- Availability through most major record keeping platforms

QDIA Options

Providing broad diversification through asset allocation options that qualify as QDIAs, American Century Investments has investment options to meet your retirement plan needs:

One Choice™ Target Date Portfolios

The One Choice Target Date Portfolios from American Century Investments are a series of nine target date funds and one objective-based fund that offer evolving strategic allocations that are optimized for the changing risk profile as an investor nears retirement.

A One Choice™ Target Date Portfolio’s target date is the approximate year when investors plan to retire or start withdrawing their money. The principal value of the investment is not guaranteed at any time, including at the target date. Each target-date One ChoiceSM Target Date Portfolio seeks the highest total return consistent with its asset mix. Over time, the asset mix and weightings are adjusted to be more conservative. In general, as the target year approaches, the portfolio’s allocation becomes more conservative by decreasing the allocation to stocks and increasing the allocation to bonds and money market instruments. By the time each fund reaches its target year, its target asset mix will become fixed and will match that of One ChoiceSM In Retirement Portfolio.

One Choice™ Target Risk Portfolios

Five static target-risk funds offer instant diversification. These portfolios are built using up to 15 underlying mutual funds to help balance risk and return. Each target-risk One Choice Portfolio seeks the highest total return consistent with its asset mix.

Balanced Fund

American Century Balanced offers a consistent, risk-managed approach through a classic 60/40 mix of stocks and bonds.

Strategic Allocation Funds

The Strategic Allocation Funds are designated Conservative, Moderate and Aggressive so investors can choose a portfolio that is aligned with their risk tolerance.

American Century Global Allocation

American Century Global Allocation fund casts a wide net across regions, countries, currencies and asset classes in search of opportunities to expand return potential while managing volatility. Tactical adjustments take advantage of opportunities and adjust to changing market conditions.

You should consider the fund’s investment objectives, risks, charges and expenses carefully before you invest. The fund’s prospectus or summary prospectus, which can be obtained by visiting americancentury.com, contains this and other information about the fund, and should be read carefully before investing.

Business Metrics

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American Century Investments® is a registered service mark of American Century Investment Management, Inc. American Century Global Allocation fund casts a wide net across regions, countries, currencies and asset classes in search of opportunities to expand return potential while managing volatility. This portfolio seeks to achieve its investment objective by using a combination of money market and bond investments. The portfolio seeks total return through interest income as well as changes in the portfolio’s market price. The money market and bond investments in the portfolio are selected so that the portfolio’s exposure to interest rate risk is consistent with the portfolio’s investment objective. The portfolio seeks to achieve its investment objective by investing in a diversified mix of securities, including government and mortgage-backed securities, corporate bonds, preferred stock, and other types of fixed-income securities. The portfolio may also include investments in non-U.S. securities. No ancillary businesses distract our focus, stretch our resources or compete with our clients. We are not beholden to quarterly earnings pressures. This enables us to stay true to the long-term objectives of our investment strategies, offer reliable diversification and align with the best interests of our clients. We’re from Main Street, not Wall Street. We take an active team-based approach to managing equity and fixed income investments.
Firm Profile

Though many small market record keepers are moving towards a more open architecture platform, there are only a few national firms like CPI who started that way and have remained true to that model. Many record keepers are either insurance companies offering funds using their own group annuity or collective trust wrapper or they manage proprietary mutual funds — sometimes both — which may not be appealing to advisors who want to have access to a greater variety of investments without any pricing bias. With more focus on fees and transparency, open architecture, reasonably priced firms like CPI are becoming more attractive to advisors, but CPI is different than their competitors because of their ownership structure. Their natural competitors, which include Ascensus, Verisign, Daily Access, Newport Group and Verisign, are either backed or owned by investors or private equity firms, not a large financial institution with deep pockets that can afford to be patient. CPI is owned by CUNA Mutual Group, a large financial service firm owned by and servicing credit unions, can afford to invest more in technology, people and distribution than a typical, low cost, open architecture firm might be expected giving them a unique advantage over almost any competitor.

CPI was founded in the early 1970’s in Great Bend, KS where most of their 500+ people still work giving them a real cost advantage over almost all their competitors, especially in the Northeast. Their staff includes 140 ASPPA designated professionals and, combined with CUNA Mutual, they manage more than $16 billion and 7,300 plans which cover 350,000 participants. Their target market is DC plans with $500,000-$7 million in assets focusing more on smaller cold callers and competitors. CPI’s history and understanding of the advisor sold, small DC market is what attracted CUNA which is highlighted by service nuances that perhaps only an open architecture firm could and would provide including:

- Form 5500 filings where CPI is listed as administrator protecting advisor clients from bothersome cold callers and competitors
- Annual reports of participants turning 59
- A list of all eligible employees, not just participants
- Timely notification of terminations with names and account balances

More and more advisors are looking for fee transparent, open architecture providers that offer good service at a reasonable price driven by concerns about conflicts and high costs. But few open architecture firms can support advisors in the field while providing good service to plan sponsors and participants in an industry that demands constant investment and improvement while still remaining competitively priced. CPI’s history, business model and ownership structure under CUNA Mutual Group provides them with a unique offering to advisors that sell plans in the small market who may be concerned about the viability of smaller providers and long term independence of those owned by private equity firms.

Firm Profile

Key Contacts:
Sales & Service: https://www.cpiqpc.com/contact-cpi.asp

will also see CUNA's name (which stands for Credit Unions of North America) more often in an attempt to not only bolster the financial backing of a Fortune 1000 company but also to focus CUNA's expertise in serving the common investor which is the hallmark of credit unions. CPI’s history and understanding of the advisor sold, small DC market is what attracted CUNA which is highlighted by service nuances that perhaps only an open architecture firm could and would provide including:

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Firm Profile

It’s hard to think about the retirement industry without thinking about Fidelity, which has 60% of its $1.7 trillion of assets under management in retirement-related accounts. But it’s not as easy to associate Fidelity with the investment-only business — since their 20,000-plus qualified plans (with 12 million participants) are on their fully integrated, bundled platform — until recently, that is. With 75% of the marketplace record kept on non-Fidelity platforms, along with the movement toward open architecture and the increasing reliance on consultants and advisors, Fidelity changed its model to reenergize their DCIO business.

Fidelity Financial Advisor Services (FFAS), as its name implies, concentrates on selling and servicing advisors. In addition to making their funds available, they had been selling their DC record keeping and administrative services to advisors. In 2011, when sales of record keeping services were moved under WI, FFAS shifted their attention to building an integrated DCIO group — expanding resources, creating specialized thought leadership and developing a focused product and pricing approach.

That division, under the leadership of Jordan Burgess, a long-time FFAS veteran, employs 10 field wholesalers selling to advisors (under Derek Wallen) and five institutional reps selling to consultants (under Matt Gannon, a long-time MFS executive who was instrumental in building their retirement business). The group oversees nearly $70 billion DC AUM — making FFAS a top-tier DCIO provider.

Fidelity enjoys a number of important and unique advantages as a DCIO provider, including:

• Industry Leadership — They combine retirement expertise and knowledge with investment and technical wisdom.
• Comprehensive Investment Menu — With more than 140 advisor funds, multiple share classes including many Z shares (like R6) and institutional CITS and SMA managed by Pyramis, Fidelity understands the types of investments that appeal to retirement plans and participants.
• Unparalleled Resources and Brand — With 800 investment professionals and many more technical experts, Fidelity has money to keep investing in the business as well as a strong retail and institutional brand.

FFAS has always worked with and understood the needs of advisors. The DCIO group is leveraging their expertise and Fidelity’s resources, including their rich database of plans and participants, to help advisors, record keepers and plan sponsors with their goal of ensuring participants achieve better retirement outcomes. They focus a number of resources and research on:

• What plan sponsors want from their advisors and what their major concerns and issues are
• Participant behavior patterns when making investment decisions and attitudes about retirement readiness
• Investment trends, especially those affecting retirement plans

White papers following up on their research cover important topics like how to restore confidence in investors, whose allocations are becoming too conservative just as they are increasingly concerned about their ability to retire. FFAS also makes available to advisors a dedicated team of investment professionals to help construct optimal investment fund lineups and perform customized mapping with supporting investment analytics.

Fidelity funds, which have some of the greatest depth as well as sensitivity to the retirement market, include:

• Fidelity Advisor New Insights, covering large cap growth
• Fidelity Advisor Growth Opportunity Fund
• Bond funds such as Fidelity Advisor Strategic Income and Fidelity Advisor Total Bond
• Large value with their Fidelity Advisor Equity Income fund
• Fidelity Diversified Stock, a large cap blend fund
• Fidelity’s popular Fidelity Advisor Freedom Funds, which is the market leader in target date funds

FFAS’s DCIO group works with all major record keepers, so advisors have access to their broad array of funds. Now, with the recently formed, dedicated DCIO team and resources, plan advisors using Fidelity funds will have access to their people, research and brand from the retirement industry’s clear leader.

Key Contacts:
Sales: Derek Wallen, SVP, Division Manager, 401.292.5615, derek.wallen@fmr.com
Service: Tom Restivo, SVP, Operations and Services Group, 401.292.5596, tom.restivo@fmr.com

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<td>Mutual Fund</td>
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<tr>
<td>Collective Trusts</td>
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<tr>
<td>SMAs</td>
<td></td>
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<tr>
<td>Asset Allocation Funds</td>
<td></td>
</tr>
<tr>
<td>TDF (To/Through/Both): Through</td>
<td></td>
</tr>
<tr>
<td>Target Risk</td>
<td></td>
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<td>Passive/Active/Both:</td>
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<td>Money Market</td>
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<tr>
<td>GICs</td>
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</tr>
<tr>
<td>Fixed Income</td>
<td></td>
</tr>
<tr>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td>Top 5 Funds by DC Assets</td>
<td></td>
</tr>
<tr>
<td>FA Freedom Funds (12 Target Date funds)</td>
<td>FA Small Cap</td>
</tr>
<tr>
<td>FA New Insights</td>
<td>FA Balanced</td>
</tr>
<tr>
<td>FA Leveraged Co Stock</td>
<td></td>
</tr>
</tbody>
</table>
Firm Profile

John Hancock has more than 150 years of experience and is a member of the Manulife Financial Group of Companies.

John Hancock knows what goes into making a healthy, successful retirement plan. We are one of the nation’s largest providers, meeting the needs of participants across a wide range of industries and plan sizes.

As your efficient provider, John Hancock gives you the innovative tools, resources and the people power to help you build and maintain a profitable retirement plan business and meet your clients’ needs.

The company has two offerings in the 401(k) marketplace: JH Signature™, our small market solution; and JH Enterprise®, our open architecture solution for the mid-market.

JH Signature™

JH Signature is a fully-packaged solution, offering a multi-class structure, local compliance and ERISA expertise, as well as a team of investment specialists who help research, select and monitor the asset managers on the platform.

JH Enterprise®

JH Enterprise is John Hancock’s open architecture retirement plan offering, providing plan sponsors with $10 million or more in assets with access to more than 18,000 investment options and a robust, real-time, proprietary record keeping system.

The company’s two commitments to their business partners and clients: We are easy to do business with, and we make plans work.

For more information, visit www.jhrps.com (For plans domiciled in New York, visit www.jhrps.com/ny)

Key Contacts:
Sales: 1.877.346.8378
Firm Profile

Legg Mason has a rich history in the DC market and is making strong moves to become more prominent in the DCIO arena. Though Legg Mason has never owned a record keeper as other well-heeled DCIOs have, they did own a brokerage firm and created private-label services with other record keepers for their advisors looking to access their funds. In 2005, Legg “traded” their advisors for Smith Barney’s funds to focus on managing money. (Those advisors are now part of Morgan Stanley.)

While Bill Miller is Legg’s most renowned portfolio manager, the firm is comprised of eight different independent money managers which have access to shared services like the DCIO group headed by industry veteran and thought leader Gary Kleinschmidt. The network of independent investment managers includes:

Batterymarch Financial Management

An equity specialist focused on bottom-up stock selection, integrated risk control and cost-efficient trading. An early entrant into overseas investing, too.

Brandywine Global Investment Management

Pursuing value since 1986 across equity and fixed income, globally and in the United States. Historically institutionally focused, the firm has both a boutique’s agility and a leader’s stability and resources.

ClearBridge Investments

Equity manager with more than 45 years of experience and long-tenured portfolio managers who build income, high active share or managed volatility portfolios.

Legg Mason Global Asset Allocation

Offers global expertise in strategic and tactical asset allocation and custom risk management. Solutions-focused, the firm combines asset allocation with Legg Mason’s independent manager expertise.

Legg Mason Global Equities Group

A collection of specialty firms dedicated to global equities. Each pursues its own strategy while benefiting from Legg Mason’s global scale. LMGE includes: Emissary Emerging Markets, Legg Mason Poland and Legg Mason Australian Equities.

The Permal Group

A global pioneer in multi-manager, multi-strategy alternative investing. The firm has made investments in new and established hedge fund managers across strategies, asset classes and regions since 1973.

Royce & Associates

Known for its disciplined, value-oriented approach to managing small caps. An asset class pioneer, the firm’s founder is one of the longest tenured active mutual fund managers.

Western Asset Management

One of the world’s leading global fixed-income managers. Founded in 1971, the firm is known for team management, proprietary research and a long-term fundamental value approach.

The firm focuses on 1,200 plan advisors who specialize in the DC market, providing a concierge-like service which gives the advisors access to Legg’s fund managers, their ERISA help desk powered by Ascensus, white papers (many of which are by ERISA expert Marcia Wagner) and other value-added services focused on the use of social media and building a pipeline of prospects.

While Legg Mason “checks all the boxes” needed to make it one of the 14 Tier 1 DCIO providers, what distinguishes Legg (and very few others) is their senior management and thought leadership. Gary Kleinschmidt started in the DC business in the 1980s, moving to Ascensus (then BISYS) in the 1990s and then to Van Kampen, which was a pioneer in the DCIO market, in the 2000s. He moved to Legg in 2007 to gain access to a firm that was comprised of eight different managers and because of their focus on DC plans after the 2005 advisor trade with Smith Barney. Gary serves on the NAPA Leadership Council, the group’s governing board. Thought leadership is important for Legg Mason, which is why they created the Legg Mason Retirement Advisory Council comprised of leading professionals from various record keepers, advisory firms and broker dealers. Following a recent expansion, the Council now includes Brian Graft, Executive Director/CEO of ASPPA and NAPA. The Council supports research and thought leadership on a variety of topics, including auto-IRAs, creating undergraduate programs to attract more people into the retirement industry, and more.

One of the world’s leading global fixed-income managers. Founded in 1971, the firm is known for team management, proprietary research and a long-term fundamental value approach.

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Key Contacts:

Sales: Gary Kleinschmidt, Head of Legg Mason Retirement
215.872.1317
Service: Ursula Henry, Vice President, Account Service Manager

Business Metrics

www.leggmason.com

Number of external wholesalers:

<table>
<thead>
<tr>
<th>DC: 8</th>
<th>Retail: 60</th>
</tr>
</thead>
<tbody>
<tr>
<td>DC AUM: $20 Billion</td>
<td>Non-IRA Retirement AUM: $92 Billion</td>
</tr>
<tr>
<td>Total: $654 Billion as of May 31, 2013</td>
<td></td>
</tr>
</tbody>
</table>

Investments:

<table>
<thead>
<tr>
<th>Mutual Fund</th>
<th>Group Annuity</th>
<th>Collective Trusts</th>
<th>SMAs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asset Allocation Funds: TDF (To/Through/Both): Both</td>
<td>Passive/Active/Both: Active</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital Preservation Funds: Money Market</td>
<td>Fixed Income: Yes</td>
<td>Bonds: Yes</td>
<td></td>
</tr>
</tbody>
</table>

Top 5 Funds by DC Assets:

- Royce Pennsylvania Mutual Fund: $507 Million Gross Sales, $2.3 Billion AUM
- Royce Total Return Fund: $381 Million Gross Sales, $1.5 Billion AUM
- Western Asset Core Bond Fund: $487 Million Gross Sales, $1.2 Billion AUM
- Western Asset Core Plus Bond Fund: $444 Million Gross Sales, $1.9 Billion AUM
- ClearBridge Appreciation Fund: $275 Million Gross Sales, $484 Million AUM

This description was written by Fred Barstein on behalf of the National Association of Plan Advisors (NAPA). It was not written by Legg Mason.

NAPA is not associated with Legg Mason.

9/13 FN1312984
Allianz Investors

Key Contacts:
Sales/Service: Glenn Dial, Managing Director, Head of US Retirement Distribution, Glenn.Dial@allianzgi.com, 212.739.4275
Kylie Donahue, Vice President, Manager, Internal Retirement Consulting Team, Kylie.Donahue@allianzgi.com, 212.739.4278

---

American Funds (DCIO)

Key Contacts:
Sales: Brendan Mahoney, Retirement Sales Manager
Service: Chris Guarino, Retirement Plan Services Operating Director, 1.800.421.9980

---

American Funds (Record Keeper)

Key Contacts:
Sales: Brendan Mahoney, Retirement Sales Manager
Service: Chris Guarino, Retirement Plan Services Operating Director, 1.800.421.9980

---

Business Metrics

www.americanfunds.com

Number of external wholesalers:
- DC: 22
- Retail: 74

DC AUM:
- Total: $202.9 Billion
- New: $47.8 Billion
- Non-IRA Retirement AUM: $90.9 Billion

Investments:
- Mutual Fund
- Group Annuity
- Collective Trusts
- SMAs

Asset Allocation Funds:
- TDF (To/Through/Both): Through
- Passive/Active/Both
- Active
- Capital Preservation Funds:
  - Stable Value
  - Money Market
  - Fixed Income:
    - Yes
  - Bonds:
    - Yes

Top 5 Funds by DC Assets
- The Growth Fund of America: $122.1 Billion, $11.7 Billion
- EuroPacific Growth Fund: $100.6 Billion, $18.9 Billion
- American Balanced Fund: $61.7 Billion, $7.3 Billion
- Fundamental Investors: $58.2 Billion, $5.3 Billion
- New Perspective Fund: $17.6 Billion, $3.6 Billion

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- Collective Trusts
- SMAs

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  - Money Market
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www.americanfunds.com

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- Collective Trusts
- SMAs

Asset Allocation Funds:
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- Active
- Capital Preservation Funds:
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  - Money Market
  - Fixed Income:
    - Yes
  - Bonds:
    - Yes

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- New Perspective Fund: $17.6 Billion, $3.6 Billion

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### DailyAccess Corp.

**Key Contacts:**
Sales: sales@dailyaccess.com  
Service: service@dailyaccess.com

#### Business Metrics

- **www.dailyaccess.com**
- **Number of external wholesalers:** DC: 8
- **DC AUM:** Total: $4.5 Billion  
  Retirement: $1.5 Billion
- **Retirement AUM:** $8.5 Billion
- **Total AUM:** $11.5 Billion
- **DC Plans UM:** 1,595
- **Retirement Plans UM:** 1,595
- **DC Participants UM:** 194,987
- **Retirement Participants UM:** 194,987
- **Asset Allocation Funds:**
  - TDF Proprietary — Custom InterServ Model Asset Portfolios/Outside — 1,325 TDFs
  - TD Risk Custom InterServ Model Asset Portfolios/Outside: Unable to determine if any of the 1325 TDFs are risk adjusted
  - Custom Glide Path: Yes — Custom InterServ Model Asset Portfolios/Outside: Unable to determine if any of the 1325 TDFs incorporate custom glide paths
- **Service Model(s):**
  - Unbundled
  - Distribution Model(s):
    - Advisor Only
- **Primary Market(s) Served:**
  - Micro (<$1 million): Exception
  - Small ($1-$10 million)
  - Mid ($10-$100 million)
  - Large ($100-$250 million)
- **Plan Type(s):**
  - DC
  - DB
  - 457
  - Taft Hartley
  - Non Qualified
- **Fiduciary Services Offered:**
  - 3(21): Through wholly-owned subsidiary, InterServ, LLC
  - 3(38): Through wholly-owned subsidiary, InterServ, LLC
  - 3(10): Not in-house; third party availability

### Federated Investors, Inc.

**Key Contacts:**
Sales: Bryan Burke, SVP, National Sales  
Manager-Retirement/Insurance, 412.491.1066
Service: Wally Jones, Platform Specialist, 412.720.8567  
Jason Kessler, Platform Specialist, 724.720.8503

#### Business Metrics

- **www.federatedinvestors.com**
- **Number of external wholesalers:**
  - DC: 6
  - Retail: 52
- **DC AUM:** Total: $43.1 Billion
  - New 2012: $4.2 Billion
  - Total AUM: $375 Billion as of 3/31/13
- **Investments:**
  - Mutual Fund
  - Collective Trusts
  - SMAs
  - Passive/Active/Both
- **Both**
  - Capital Preservation Funds:
    - Stable Value
    - Money Market
- **Fund Income:**
  - Bonds: Yes
- **Top 5 Funds by DC Assets**
  - (with asset total & last year new flow):
    - Total Return Bond Fund: $3,762 DC Assets, $7,524 Total Assets
    - Strategic Value Fund: $3,379 DC Assets, $6,758 Total Assets
    - Kaufmann Fund: $2,661 DC Assets, $5,322 Total Assets
    - Institutional High Yield Fund: $1,045 DC Assets, $2,090 Total Assets
    - Ultra-short Bond Fund: $958 DC Assets, $1,916 Total Assets

### Fidelity Investments (Record Keeper)

**Key Contacts:**
Sales: 800.684.5254, option 1  
Service: 866.444.4015

#### Business Metrics

- **Number of external wholesalers:** 38
- **Retirement AUM:** Total: $1.2 Billion
- **DC Plans AUM:** 22,660
- **DC Participants UM:** 16.3 Million
- **Retirement Participants UM:** 20.7 Million
- **Asset Allocation Funds:**
  - TDF Proprietary/Outside: Fidelity Freedom Funds and several outside fund families
  - TD Risk Proprietary/Outside: Fidelity Asset Manager Funds and several outside fund families
  - Custom Glide Path
- **Service Model(s):**
  - Bundled
- **Distribution Model(s):**
  - Advisor & Direct
- **Primary Market(s) Served:**
  - Micro (<$1 million): Exception
  - Small ($1-$10 million)
  - Mid ($10-$100 million)
  - Large ($100-$250 million)
- **Plan Type(s):**
  - DC
  - DB
  - 457
  - Taft Hartley
  - Non Qualified
### ING

#### Key Contacts:
- Sales: 1.866.481.3653, option 4
- Service: 1.866.481.3653, option 3

#### Business Metrics

- Number of external wholesalers: **50**
- DC AUM: **$316 Billion**
- Retirement AUM: **$316 Billion**
- Total AUM: **$461 Billion**
- DC Plans UM: **47,547**
- Retirement Plans: **47,547**
- DC Participants UM: **5.1 Million**
- Retirement Participants UM: **5.1 Million**
- Asset Allocation Funds: TDF Proprietary & Outside
- Asset Allocation Funds: TDRisk Proprietary & Outside
- Service Model(s): Bundled & Unbundled
- Distribution Model(s): Advisor/direct/both
- Advisor
- Primary Market(s) Served: Micro (<$1 Million)
- Primary Market(s) Served: Small ($1-$10 Million)
- Primary Market(s) Served: Mid ($10-$100 Million)
- Primary Market(s) Served: Large ($100-$250 Million)
- Primary Market(s) Served: Mega (+$250 Million)
- Plan Type(s): DC
- Plan Type(s): DB
- Plan Type(s): Non-Erisa 403(b)
- Plan Type(s): 457
- Fiduciary Services Offered: 3(21)
- Fiduciary Services Offered: 3(28)

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### Invesco

#### Key Contacts:
- Sales: Jeffrey Hemker, CIMA®
  630.258.6931, jeffrey.hemker@invesco.com
- Matt Foster
  800.370.1519 ext. 5192, matt.foster@invesco.com
- Service: Invesco Retirement Division Sales Desk 800.370.1519

#### Business Metrics

- Number of external wholesalers: **10 (DC) / 103 (Retail)**
- DC AUM: **$113.8 Billion**
- Total AUM: **$705.6 Billion**
- Investments:
  - Mutual Funds
  - Collective Trusts
  - SMA
- Asset Allocation Funds: TDF (To/Through/Both)
  - Target Risk
- Capital Preservation Funds:
  - Stable Value
  - Money Market
  - Bonds
  - Yes
- Top 5 Funds by DC Assets (with asset total & last year new flow):
  - IVZ Growth and Income: **$3.5 Billion**
  - IVZ Diversified Dividend: **$1.8 Billion**
  - IVZ Comstock: **$2.8 Billion**
  - IVZ International Growth: **$1.7 Billion**
  - IVZ Equity and Income: **$2.8 Billion**
## MFS

**Key Contacts:**
Ryan Mullen, Senior Managing Director, National Sales, 617.954.6914; Mike Schwanekamp, Managing Director, 513.604.6421

### Business Metrics

```plaintext
www.mfs.com
```

- **Number of external wholesalers:**
  - DC: 9
  - Retail: 84

- **DC AUM:**
  - Total: $40.6 Billion
  - New 2012: $34.7 Billion

- **Total AUM:**
  - $353.7 Billion as of 6.30.13

- **Investments:**
  - Mutual Fund
  - Group Annuity
  - Collective Trusts
  - SMAs

- **Asset Allocation Funds:**
  - TDF (To/Through/Both) - To Target Risk
  - Passive/Active/Both - Active
  - Fixed Income
  - Yes
  - Bonds
  - Yes

- **Top 5 Funds by DC Assets (with asset total & last year new flow):**

<table>
<thead>
<tr>
<th>Fund Type</th>
<th>Asset Total (Past Year)</th>
<th>Asset Total (Current Year)</th>
</tr>
</thead>
<tbody>
<tr>
<td>MFS Value Fund</td>
<td>$7.98 Billion</td>
<td>$6.5 Billion</td>
</tr>
<tr>
<td>MFS Research International Fund</td>
<td>$1.7 Billion</td>
<td>$1.8 Billion</td>
</tr>
<tr>
<td>Massachusetts Investors Growth Stock Fd</td>
<td>$1.8 Billion</td>
<td>$1.3 Billion</td>
</tr>
<tr>
<td>MFS International Value Fund</td>
<td>$1.5 Billion</td>
<td>$1.1 Billion</td>
</tr>
<tr>
<td>MFS Growth Fund</td>
<td>$1.5 Billion</td>
<td>$1.2 Billion</td>
</tr>
</tbody>
</table>

## OneAmerica

**Key Contacts:**
Sales: National Sales Desk: 1.866.313.7355
Service: National Sales Desk: 1.866.313.7355

### Business Metrics

```plaintext
www.oneamerica.com
```

- **Number of external wholesalers:**
  - 32

- **DC AUM:**
  - Total: $18.1 Billion
  - Retiremen AUM: $23.1 Billion

- **Total AUM:**
  - $23 Billion

- **DC Plans UM:**
  - 9,700

- **Retirement Plans UM:**
  - 10,000

- **DC Participants UM:**
  - 514,000

- **Retirement Participants UM:**
  - 620,000

- **Asset Allocation Funds:**
  - TDF Proprietary/Outside Outside (Alliance Bernstein, Allianz Global, American Century, Fidelity, Russell, T Rowe Price, and Wilmington Trust)
  - TDRisk Proprietary/Outside Outside (American Century, DFA, Manning & Napier, Russell)
  - Custom Glide Path: Custom models and glide paths are Financial Advisor driven

- **Service Model(s):**
  - Bundled and Unbundled

- **Distribution Model(s): advisor/direct/both:**
  - Advisor

- **Primary Market(s) Served:**
  - Micro (<$1 Million)
  - Small ($1-$10 Million)
  - Mid ($10-$100 Million)
  - Large ($100-$250 Million): Limited
  - Mega (>250 Million): Limited

- **Plan Type(s):**
  - DC
  - DB
  - Non-Erisa 403(b)
  - 457
  - Taft Hartley
  - Non Qualified
  - IRA

- **Fiduciary Services Offered:**
  - 3(21)
  - 3(38)
### OppenheimerFunds

**Key Contacts:**
Sales: James Howard, 212.323.5016, jhoward@ofiglobal.com

#### Business Metrics

- **www.Oppenheimerfunds.com**
- **Number of external wholesalers:**
  - DC: 12
  - Retail: 69
- **DC AUM:**
  - Total: $31.8 Billion
  - New 2012: $29.3 Billion
- **Non-Retirement AUM:**
  - $50.5 Billion
- **Total AUM:**
  - $215.3 Billion
- **Investments:**
  - Mutual Fund
  - Collective Trusts
  - SMAs
- **Asset Allocation Funds:**
  - Target Risk
  - Passive/Active/Both
    - Active
- **Capital Preservation Funds:**
  - Money Market
- **Fixed Income:**
  - Yes
- **Bonds:**
  - Yes
- **Top 5 Funds by DC Assets** (with asset total & last year net flow):
  - Developing Markets Fund: $9.4 Billion, $3.2 Billion
  - Global Fund: $4.5 Billion, $774.8M
  - International Growth Fund: $2.9 Billion, $915.8 Million
  - International Bond Fund: $2.0 Billion, $508.6 Million
  - Main Street: $1.3 Billion, $274.1 Million

### RidgeWorth Investments

**Key Contacts:**
Sales: Brandon Shea, DCIO National Sales Manager
615.364.1603, Brandon.shea@ridgeworth.com
Service: James Kish, Internal Desk Manager for the Retirement & Investment Specialists
404.845.7625, james.kish@ridgeworth.com

#### Business Metrics

- **Number of external wholesalers:**
  - DC: 6
  - Retail: 9
- **DC AUM:**
  - Total: $2.6 Billion
  - New 2012: $1.1 Billion
- **Non-IRA Retirement AUM:**
  - $2.6 Billion
- **Total AUM:**
  - $48.1 Billion
- **Investments:**
  - Mutual Fund
  - Collective Trusts
  - SMAs
- **Asset Allocation Funds:**
  - Target Risk
  - Passive/Active/Both
    - Active
- **Fixed Income Funds Available**
  - Yes
- **Bonds**
  - Yes
- **Top 5 Funds by DC Assets** (with asset total & last year net flow):
  - Mid-Cap Value:
    - Value: $555 Million AUM, $655 Million 2012
    - Income: $221 Million 2012
  - Total Return Bond:
    - Value: $152 Million AUM, $152 Million 2012
    - Income: $66 Million 2012
  - Large Cap Value:
    - Value: $504 Million AUM, $504 Million 2012
    - Income: $169 Million 2012
  - Moderate Allocation:
    - Value: $149 Million AUM, $149 Million 2012
    - Income: $38 Million 2012
  - Small Cap Value:
    - Value: $294 Million AUM, $294 Million 2012
    - Income: $98 Million 2012
Whose Revenue Is it Anyway?

Should participants pay equally for the services they receive from their plan’s service providers — record keepers, money managers and advisors — rather than through Sub-TA or 12(b)(1) fees?

By Fred Barstein
now that the entire market — not just advisors and providers — is focused on fees, a fundamental question is being asked:

Who owns the revenue generated from the investments?

More plans are looking to push more of their plan costs off to participants. The funds to pay those costs come either from participants’ accounts or from revenue sharing generated from the funds they purchase. The question addresses how cost sharing should be allocated, including whether participants should pay based on the revenue sharing that their funds generate rather than the size of their account balances.

Currently the question of fee equalization for participants is centered on fairness, not fiduciary responsibility, and there are signs that it could become a market differentiator for record keepers and advisors. As Stig Nybo, President of Transamerica Retirement Services — a leader in the fee equalization market — puts it, “Fee levelization for participants is intuitive.”

Troy Hammond, an advisor with LPL and President of Pensionmark, believes that fee equalization is important, but the market is not demanding it. Jim O’Shaunessy, another LPL advisor and founder of Sheridan Road, agrees that it’s a huge topic and plan sponsors may respond when it’s brought up, but they are not driving the market.

Using an extreme example, in a plan where the plan sponsor does not write a check for any of the services provided by the record keeper or the plan advisor, a participant with a $100,000 balance using Vanguard funds may pay nothing to subsidize costs. However, another participant with the same account balance could be paying $500 annually if the funds in her account pay an average of 50 BPs, which is not uncommon. Yet both participants are receiving the same services and have the same account balances.

The situation is worse for larger account balances — especially for owners, fiduciaries and people making plan-level decisions who might be investing in low-cost passive funds or even ETFs while participants with lower account balances are paying relatively high revenue share fees to subsidize all plan costs.

Few would recommend that all participants pay a flat fee. Making a low-balance participant pay the same as a high-balance account hardly seems fair. Maybe, though, there’s a hybrid model where participants pay a percentage of assets up to a certain amount, and then pay a flat fee.

Making a low-balance participant pay the same as a high-balance account hardly seems fair.”

This raises the question of whether these high-balance, low-revenue-sharing decision makers will be reluctant to move to a more equitable arrangement. According to O’Shaunessy, these senior managers do not hesitate when making the decision. In fact, the situation may motivate them to move to fee equalization. The potential liability and “bad press” with rank-and-file participants is greater than the relatively small dollar amounts they may have to pay.

Who Owns Revenue Sharing?

So who really owns this revenue sharing from mutual funds, usually in the form of Sub-TA fees?
To really accomplish participant fee levelization, there needs to be a sophisticated technology solution.”

According to Steve Saxon, a principal with the Groom Law Group, revenue sharing is not a plan asset, at least when it is first paid into the plan, without a specific arrangement between the plan sponsor and record keeper.

Saxon was pleased to have the Department of Labor agree in a recent Advisory Opinion (Adv. Op. 2013-03A) involving his client, an insurance provider. The Advisory Opinion was important because if revenue sharing is a de facto plan asset under Schedule H of the Form 5500, it would have to be held in trust and give rise to all sorts of prohibited transactions. There might also be issues with the mutual fund companies.

But once that revenue sharing is received, it can become a plan asset if there is a written arrangement between the parties to that effect. Saxon is quick to point out that the issue is about disclosure, not fairness, and that currently equalization is not required and may not make sense for really small plans where the administrative costs might outweigh the benefits.

Technology Holds the Key

To really accomplish participant fee levelization, there needs to be a sophisticated technology solution. In the past, record keepers took a monthly snapshot of a participant’s account to calculate how much revenue sharing each participant paid and how much should be charged or credited to that account. While that’s cumbersome, it’s still easier than calculating and crediting accounts daily.

But monthly snapshots do not accurately reflect how much revenue sharing each participant paid due to market fluctuations, contributions and transactions that may have occurred during the month. A savvy participant could game the system by moving all investments to low-revenue-sharing funds monthly when revenue sharing is calculated. Though prohibitions against excessive trading due to the market timing scandals limit transactions (and most participants would not even know what to do), having this kind of loophole is a potential problem.

The three major providers who are making fee equalization available — Transamerica, John Hancock and OneAmerica — have limited the service to mid-market plans or those generally with more than $10 million in assets, although Transamerica is just starting to offer the service to smaller plans.

Transamerica calculates the revenue sharing paid by each participant daily and then credits or charges their accounts based on the overall charge needed to run the plan monthly. If the plan requires 25 BPs by agreement with the plan sponsor, and the investments in a participant’s account generated 35 BPs, that participant’s account would be credited with 10 BPs. Similarly, a participant whose investments paid 15 BPs of revenue sharing fees would be charged 10 BPs. According to George Revoir, VP at John Hancock Retirement Services, “It’s a technology solution.” That may be why very few providers are offering it — though everyone claims to be “six to nine months away from making a solution available.”

Share Classes

Some may ask, “Why not offer all institutional shares like R6, which pay no revenue sharing, and just create an ERISA account where all participants pay an equal percentage to offset costs?” The problem is that some popular funds do not offer R6 funds.

According to Transamerica’s Nybo, using share classes that include revenue sharing may be more efficient. Nybo claims that R4 or R5 funds, for example, may be cheaper than the same R6 fund when revenue sharing is stripped out because these nascent funds include fees to pay for their formation. Nybo says that the ability to levelize participant fees makes share classes irrelevant — which assumes that the plan has negotiated a reasonable fee for the services provided and adequately negotiated a fair deal based on share classes available for plans of their size and situation.

Legal Requirements

While we are far from the DOL requiring participant fee equalization, according to David Levine, a principal with Groom, he emphasizes that the process a plan sponsor goes through in making a decision may be reviewed.

Fiduciaries may not be paid out of plan assets unless the fees are reasonable and levelized, which is why advisors acting as a fiduciary may not be paid depending on which fund the plan or its participants select. This seems logical and fair. So why not levelize revenue sharing?

Record keepers would argue that they do not act as fiduciaries and therefore should not be required to levelize their compensation. They would also argue that their fees are equalized at the plan level under arrangement with their plan sponsor clients, whether it’s based on the services rendered or a percentage of assets.

But courts are beginning to realize that some record keepers can swap out funds without prior permission under annuity contracts, which puts them in a position to select funds that pay them more rather than what’s best for their clients.

And why are some funds willing to pay greater revenue sharing, not just to get on the platform but to get “premier positioning”? These are savvy people, so it’s doubtful they are willing to just give money away. (It would be interesting to study whether similar funds with greater revenue sharing have a larger market share on a particular platform.) In addition, advisors and record keepers may be tempted to offer these higher revenue sharing funds to make the plan expenses appear cheaper.

Market Demand

Most agree that fee equalization will happen or not based on market demand.
Almost everyone agrees that the conversations are not being driven by plan sponsors. Of course, some cynics ask when plan sponsors ever drive change — although auto-enrollment was started by big plans like McDonalds before there was rapid adoption following the enactment of the 2006 Pension Protection Act. Most innovation, however, is spearheaded by providers, who spend a lot of money and hire high-priced talent to focus on the markets’ problems — trying to find a solution that will at least give them a head start, if not an edge.

Massive change happens when academics validate the innovation through independent research, and then the government requires it (or at least creates a safe harbor like it did with auto plan features). OneAmerica created their fee levelization on the NAV platform they inherited from the McCready and Keene acquisition because a few of their clients were ready to bolt if they did not. Peter Welsh, OneAmerica’s VP, claimed that the cost of creating the service was less than the loss of revenue from these plans.

Currently, 50% of proposals for that market are interested in fee levelization, which matches other providers’ experience. Marc Kahn, Transamerica’s legal counsel, believes that Transamerica (through its former Diversified division) is being invited to RFPs because of its ability to equalize fees that it would not otherwise be participating in. And Hancock’s Revoir says that the firm is making participant fee levelization “a hallmark of our new mid-market NAV service” and is getting into advisors’ offices that it would have been shut out of otherwise.

In fact, one of Transamerica’s long-standing clients, Donald Fager, a medical malpractice insurance firm with 460 employees, moved to fee equalization two years ago because, after being presented with the option, they thought that it made sense. James Rhatigan, Fager’s plan administrator, believes that the service is more equitable and provides greater benefit to their participants. “Reaction from participants was very good, with no negatives, while there was minimal work on our part,” Rhatigan relates. But Rhatigan and his committee did not ask for the service — it was presented to them and they felt that it was more equitable, without concern that higher account balance holders would be paying more.

According to Troy Hammond, a big proponent of fee equalization, “Plan sponsors and participants are just getting their arms around fees and don’t see a reason to change if fees are reasonable or low.” And even though most providers claim to be working on it, will it just be another service or business model that sounds sexy but never really takes off, like gross-to-net pricing? And will it be a commodity if everyone offers it, like brokerage accounts?

In any case, fee levelization is an issue that appeals to most plan sponsors’ sense of fairness. If there’s no cost, work or increased liability — the three-part gauntlet that any new service must pass through — many of them will be interested.

The issue has more practical impact on participants but, based on their reaction to last year’s participant fee disclosure regs, it might be a while before they even understand what fee equalization means. When they do, or if the media picks up on it, there might be more demand. Sheridan Road’s O’Shaughnessy notes that at a minimum these discussions with clients raise awareness, and can even lead to them paying more of the costs, including advisor fees.

Regardless of the eventual impact, the discussion of participant fee equalization is just beginning, and it should have “legs” for at least the next two to three years. But two questions remain:

- Will it lead to more business for those providers that offer it or advisors who advocate for it?
- Will it make plan sponsors change record keepers or advisors?

It certainly raises the obvious question of whether participants should pay equally for the services they receive from their plan’s service providers — record keepers, money managers and advisors — rather than through Sub-TA or 12(b)(1) fees within funds that participants rarely understand.

And lastly, the current payment scheme certainly raises concerns in a market that’s already skeptical about the fees in 401(k) plans — as well as the entire financial services industry, which is suffering from a trust deficit after their bad behavior during the Great Recession.

SEC REGISTRATION MAY BE NEXT FOR RECORD KEEPERS

Will record keepers need to register with the Securities and Exchange Commission if they are receiving payments from mutual fund companies? Last summer the SEC indicated that it would “ask for information on third party administrators, and may use this information to consider whether entities that provide these services are appropriately registered or exempt from registration.” The question that seems to be piquing the agency’s interest is whether record keepers are receiving payments from mutual funds held in clients’ accounts to pay for services that the funds would have otherwise had to provide — and whether those payments are being made in compliance with the rules. Stay tuned.
C-suite execs have a laser-like focus on cutting costs, growing revenues, delivering a return on investment to shareholders and retaining top talent. Selling them on a retirement plan strategy takes the same kind of focus on the advisor’s part.

BY BRUCE SHUTAN

Selling to the C-Suite
he inability to afford retirement has become an increasingly common and sad reality for many working Americans. Consider the case of a forklift operator with more than 30 years of service at Dinn Brothers Trophy, Inc. in West Springfield, MA, who had to keep working until his death in his mid-70s. The individual, who was hired by the family business patriarch, thought that he’d have enough to live on between his 401(k) savings and Social Security, but the numbers simply wouldn’t support it. He died of lung cancer at age 75 — never having a chance to retire.

Paul Dinn, Dinn Brothers’ president, views the firm’s 401(k) as a prudent investment in his nearly 100 employees that will pay off in terms of improving recruitment, retention, loyalty and morale. “Being such a small organization,” he says, “I see these people every single day, and I just want them to have the ability to relax as they get older as opposed to really struggling and lying awake at night thinking about where their next dime is coming from.” According to Hugh O’Toole, senior vice president of sales and client management for MassMutual’s Retirement Services Division, Paul Dinn’s forward-thinking view is not only commendable, but makes financial sense for the firm.

“There are parallels between an individual’s preparedness for retirement and the ability for companies to be and stay competitive,” says O’Toole. “It’s more than just a moral and ethical obligation to help Americans retire successfully. Industry data shows that helping employees be well prepared financially by their normal retirement date can have a positive impact on the company bottom line as well.”

While Dinn didn’t need to be sold on the value of retirement benefits, there are plenty of other skeptical C-suite executives who are much more concerned with reducing their soaring labor costs, particularly on the health care side of the equation. But putting these plans on the chopping block or avoiding sponsorship altogether could activate a demographic time bomb that triggers massive collateral damage.

Retirement readiness is “a global issue that we have to deal with” or face profound economic and social shifts, cautions Stig Nybo, President of Sales and Distribution for Transamerica Retirement Solutions. And it’s not just about dollars and cents, says Nybo, the author of Transform Tomorrow, a book on this topic.

It’s also about a moral imperative to do right by our fellow citizens. “I think passion needs to come into this discussion” without being preachy, he believes. “We have to get the savings rate up in the U.S. If we don’t, then the consequences are pretty dire from my perspective. Any economist would agree with that if they’re projecting what happens to our tax base when people fall off the proverbial cliff with respect to income.”

Paying a High Price

The high cost of supporting an aging workforce has raised eyebrows across countless C-suites, and without an adequate financial safety net in place, many Americans will need to work well into their golden years. Serving as a backdrop to this impending crisis will be a higher average life expectancy, and with that comes a greater prevalence of health challenges that could force workers to retire before they’re ready — or leave employers without a workforce that has the skills and experience they need to compete.

Key research conducted across age bands shows a significantly higher employer cost to insuring older employees. An analysis by MassMutual of data from a leading group health insurance carrier and various federal government agencies uncovered a more than 1,500% annual cost increase for employees 60 or older vis-à-vis employees 30 or younger. The calculation includes health care premiums ($9,000 vs. $2,500, respectively, for both groups) and disability insurance premiums ($532 vs. $32).

Viewed another way, the analysis revealed considerably higher annual employer-premium costs for medical and disability insurance as the number of older workers increased among three hypothetical companies, each with 1,000 employees and identical characteristics other than workforce demographics. For example, there was
There isn’t necessarily an obvious link between a 401(k) plan and company growth or shareholder value.”

duration of injuries is much greater among older employees than among their younger counterparts. People age 45 to 64 miss 66 days a year on average compared with 53 days for those age 20 to 34. When factoring in medical expenses associated with claims that were closed within two years, NCCI found a $2,576 cost differential between these two groups ($7,649 vs. $5,073).

Another major cost to consider is the impact of financial worries, which the Personal Finance Employee Education Foundation says can range anywhere from $750 to $2,000 per employee each year. The group also found that on average, poor financial literacy among 3,121 survey respondents triggered $300 more in health care expenses and $450 in lost productivity a year. The long-term danger is if these employees end up suffering from an indefinite state of “pre-senteism” (employees who are sick but still come to work, and function at diminished capacity) or job lock, that erodes their health, loyalty and productivity.

But simple retirement plan design changes could go a long way toward helping employees save more of their paychecks. One example the group cited involves offering a health care flexible spending account, which it estimates can help financially literate employees save their company up to $1,274 a year.

From Austerity to Optimization

But try telling that to the C-suite. Joseph F. DeNoyior, a managing partner with the Washington Financial Group in McLean, VA, recalls an eye-opening chat with the CFO of a government contractor with 300 employees and $30 million in revenue whose 401(k) plan dates back to 1989. The executive sought ideas on how to reduce the cost of the plan, feeling a common pressure to slash expenses from a fiduciary standpoint. But deep into the conversation, the CFO realized that the plan was competitively priced, the actual checks being written were minimal and the employer match as a percentage of payroll didn’t grow at all. The CFO was reluctant to shift more costs onto participants. It didn’t take long before they started discussing ways to contain rather than lower costs, as well as optimize the firm’s investment in its 401(k) plan.

When approaching the C-suite about the value of a 401(k), “Payroll taxes and medical costs are huge compared to what companies are putting into 401(k) plans,” DeNoyior points out. These higher health care costs are also eroding retirement savings levels. Of more than 1,000 employees responding to a Bank of America Merrill Lynch survey, 56% reported that higher health care costs over the past two years means they’re saving less for retirement.

When selling a retirement plan strategy to the C-suite, advisors must be mindful of the laser-like focus on cutting costs, growing revenues and delivering a return on investment to shareholders, according to Paul D’Auiltolo, an institutional consultant with UBS Financial Services in Rochester, NY.

“Utilizing the data to move the needle and drive the right employee behaviors toward a more secure retirement,” he says, “the senior-management team also will want to concern themselves with retaining top talent.”

There isn’t necessarily an obvious link between a 401(k) plan and company growth or shareholder value, nor is it advisable to target retirement benefits for cost reduction. But retirement benefits certainly can help drive retention, which D’Auiltolo says allows employees to deepen relationships with clients. The danger of losing top talent to a competitor is that happy clients also could exit, he adds.

Within the context of this door-opening discussion, he asks executives whether they have calculated the cost of benefits for an aging workforce. He wonders about another critical cost forecast that doesn’t receive enough attention. It involves lost productivity stemming from employees who are stressed about their finances and unable to afford retirement when their bodies start to break down as a natural part of aging.

These issues give way to other cost concerns, such as absenteeism and rising compensation among older employees. By making retirement readiness a top corporate objective, D’Auiltolo believes that enabling younger generations to replace their older counterparts as part of a natural turnover will go a long way toward helping employers lower costs associated with benefits and compensation and increase productivity.

“What we have seen with our client base is those companies that have rich employee benefits, specifically on the retirement side, do, in fact, have happier employees who retire,” he reports. “And these companies have exceedingly hit their profit runs after year after year after year.”

An Investment in People

The data certainly provokes an economic argument for retirement outcomes. But the data itself may not be the most important or interesting part of this story. “Using a combination of data analytics for each individual employee, behavioral finance techniques, plan design and next generation plan metrics, retirement plan providers can move the needle and drive the right employee behaviors toward a more secure retirement,” states O’Toole. “The opportunity for financial professionals is to convince C-suite executives that these plans aren’t a line-item cost of doing business so much as a smart and necessary investment in human capital that will pay frequent and meaningful dividends. Chief among them: improved recruitment and retention, higher productivity, and lower costs associated with group medical, disability and workers’ compensation claims, as well as reduced absenteeism, pre-senteism, tardiness, stress and turnover.

“If employees are distracted by financial worries, they are going to be less productive and, likely, less happy and healthy in general,” says O’Toole.
The issue of retirement readiness presents a growing opportunity for retirement plan advisors to approach the C-suite within the context of a more holistic view of physical and financial employee wellness.”
The DC Plan’s Effect on Participants’ Engagement

Research on participants’ retirement engagement has uncovered the appealing connection between a high quality, appreciated DC plan and a higher operating margin for the firm. Here are three action steps to boost the perceived value of a 401(k) plan.

For many employers, the defined contribution plan is seen simply as a basic requirement for remaining competitive in labor markets. The company’s matching contribution, as well as the time and resources used in designing and managing the plan, are seen as operating costs with little return on the investment beyond having a competitive benefits plan.

But this is not necessarily true. New research by BlackRock in conjunction with Boston Research Group confirms that there is an untapped opportunity for companies to demonstrate an increased return on the investment they have made in their DC plans through increased employee engagement.

The concept of employee engagement has been studied and measured for at least 15 years. It has made major inroads in HR circles, driving how decisions are made in parts of corporate America. But there is a disconnect between the recognition that alignment is important and the level of focus on the problem. For example, a report from The Economist Intelligence Unit found that only 12% of senior business leaders are focusing on improving employee engagement — even though more than 80% say disengaged employees are one of the three biggest threats facing their business.

It is not surprising that an engaged employee is a positive contributor to the company when you consider the attitudes and behaviors that LRN (a leading ethics, compliance and corporate culture consulting firm) and Boston Research Group identify as exhibited by aligned employees:

- loyalty
- recruits others to the company
- goes the extra mile for the company’s success
- tries to inspire co-workers
- is a corporate advocate
- innovates on the job
- increases customer satisfaction
- projects a positive image of the employer
- has fewer instances of misconduct

In a phrase, aligned employees see their firm as an employer of choice.

Drivers of Engagement

What does drive employee engagement? According to LRN and Boston Research Group models, corporate culture is the strongest factor. The elements of this are:

- A culture based on mission, or the belief that the firm’s mission goes beyond simply making the most money it can.
- A culture based on values, in which the prevailing belief is that things should be done the “right” way, rather than the most expedient way.
- A culture based on trust, including the belief that senior management is open and honest in its pronouncements.
- A reward culture (as opposed to a punishment culture), where good work is rewarded and that those who take risks and fail are nonetheless applauded for their initiative.
- A culture in which employees perceive that the employer cares about their well being.

A DC plan, perhaps surprisingly, operates for the employer on many of these drivers. The plan is provided as a preferred savings arrangement overseen by the employer in a fiduciary capacity in which employees entrust their retirement savings to the plan. Plan design features, including
default options, match levels and investment options, are often seen by the employee as a recommendation from the employer, who is trusted to have more information, negotiation power and investment savvy than the employee.

Though the link to the reward culture isn’t as strong, the DC plan has historically often been linked to corporate performance, providing greater rewards through a discretionary profit sharing contribution. And at its most basic purpose, the DC plan is offered as a tool to promote the financial wellness of the employee.

Any leader within an organization knows that the drivers of alignment can be challenging to cultivate, maintain and grow. The conclusive links between the defined contribution construct and drivers of alignment, as shown by the research described below, make the DC plan a natural candidate for increased focus by executive HR and Finance professionals looking to increase employee engagement, enhance ROI and improve the organization’s bottom line.

Measuring the Connections — Determining Causality

The connection between participant confidence and engagement with their DC plan was explicitly measured by the BlackRock Annual Retirement Survey. Notably, the 2012 survey found that participants who described themselves as confident about their retirement future were far more engaged with their plan (i.e., actively taking steps to get the most out of their DC plan) than those self-described as lacking confidence. (See chart.)

To learn more, in late 2012, BlackRock and Boston Research Group specifically investigated the connection between participants’ engagement with their DC plan and its effect on engagement with the employer.

The national study was conducted as a quantitative 20- to 25-minute survey of more than 1,000 active participants in DC plans. They were asked a series of 30 questions to gauge engagement with their employer and their views and experiences with retirement planning. These elements, when integrated, established a measure of their retirement engagement (e.g., were they taking action in retirement planning? Did they feel confident in their ability to retire?), and employer connectivity (e.g., did they perceive the employer’s retirement savings plan to be of high quality? Did the DC plan have an effect on their perception of their employer?)

The research results show not only correlation, but a clear causal relationship between financial benefits, financial wellness and employee engagement with the employer. The more connected individuals were with retirement planning, and the better understanding they had of their plan’s design and the DC plan benefit, the higher their engagement with the employer. That is, the research found that the DC...
The research found that the DC plan is a proven driver of employee engagement, in that it is a manifestation of a company’s values, concern and reward culture.”

1. Promote the Plan
   Typically, communications about the DC plan have a “check-the-box, disclosure” feeling about them. Communications which emphasize the benefits of the DC plan, especially during a new-hire orientation when employee alignment is often very high, are a simple way to shift the message to how the plan embodies the company’s values. Definitive statements and external sources can reinforce the message.

   Continue to promote the plan at every opportunity. Discuss the reasons behind plan design changes in a positive manner. For example, a change in default funds may provide participants with more confidence that their strategy will take them to and through retirement. A fee reduction will improve participant savings. And a discretionary profit sharing contribution shows partnership and goodwill from the employer. Proactive measures, such as a re-enrollment to bring the benefits of the latest best practices to more tenured employees, should be positioned as an expression of company’s concern for employees’ well being.

2. Pitch to the Participant
   Using the information gleaned from the psychographic profile, consider plan design changes that help employees segment to improve their action toward retirement planning and boost their retirement confidence. Develop a communication strategy that addresses the concerns and needs of the various investor types. A plan sponsor may find that they have a predominance of one type of investor, or they may find different dominant segments across divisions. While the optimal implementation would be to communicate to each individual investor in a tone and with the language that best articulates the values that individual will most appreciate, a more practical approach is to ensure the incorporation of key words and phrases that are likely to appeal to each segment in broad plan communications. (BlackRock has developed a digest of language that may be particularly effective with each profile type.) Use the language to develop various ‘sales pitches’ for the plan.

3. Unlock the Full Power of Your DC Plan
   As soon as employees begin to appreciate the quality of your DC plan, improvement to alignment starts to happen. The research behind the BlackRock® Retirement Engagement Benchmark™ has uncovered the appealing connection between a high quality, appreciated DC plan and a higher operating margin for the firm. There is a clear opportunity for DC plan sponsors to use the BlackRock Retirement Engagement Benchmark framework and its tools and tactics to help employees better understand the plan, the value the employer is providing with the plan and how best to use the plan to meet their retirement goals. Taking action will improve engagement with the plan and retirement outcomes for participants as well as drive higher engagement to their employer.

   » Warren Cormier is president and CEO of Boston Research Group and author of the DCP suite of satisfaction and loyalty studies. He also is cofounder of the Rand Behavioral Finance Forum, along with Dr. Shlomo Benartzi.
   » Allegra Heyligers and Laraine McKinnon are Directors at BlackRock and contribute to BlackRock’s defined contribution thought leadership program.
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Inside the Numbers

Employees who have done a retirement needs assessment are more confident about their prospects than those who have not, and those who sought the services of a paid financial advisor set more realistic savings goals than those who did not.

Most of us have seen those commercials with images of an overweight person who has participated in a new diet and/or exercise regimen, alongside an “after” image that shows dramatic improvement, or perhaps that rusty old car whose finish is restored with a single application of some new polish. These before-and-after images make for compelling testimonials because they purport to provide a comparison of the way things are with the way they might be.

There is even a school of thought (and some academic evidence to support the notion) that individuals can be successfully motivated to engage in better savings behaviors by allowing them to interact with “age-progressed” renderings of themselves that help them better picture, and thus relate to, the needs of their future self.

However, while a picture can sometimes be worth a thousand words, one of the more compelling aspects of EBRI’s Retirement Confidence Survey (RCS) is the picture it provides of the difference in perspective — and expectations — of those for whom retirement is a future event, and those who are already living it.

Higher Expectations

Consider that in this year’s survey more than one in five workers said the age at which they expected to retire has increased in the past year. As recently as 2009, 25% indicated that expectation. Looking back to 1991, only about one in 10 workers expected to retire later than age 65, and fully half of employee respondents expected to retire before age 65. But in the 2013 RCS, 36% of workers expected to retire later than that, and 7% said they didn’t expect to retire at all.

So, what’s the experience of current retirees? Nearly half (47%) said they had retired sooner than planned — and that number has never been less than 36% going all the way back to 1991. The number of retirees who retired later than expected? Less than 10%. In fact, the median (midpoint) age at which retirees report they actually retired has remained at age 62 throughout this time.

Those earlier-than-expected retirements are triggered by a variety of circumstances, both positive and negative — some by choice, and some involuntary. More than half (55%) cited health problems or disabilities; one in five cited downsizing or closure (20%); and still others noted having to care for spouses or other family members (23%); and there were those who said changes in the skills required for their jobs (9%) or other work-related reasons (20%) played a role. Some retirees do mention positive reasons for retiring early, such as being able to afford an earlier retirement (32%) or wanting to do something else (19%), but just 7% offer only positive reasons.

Nearly half of workers age 45 and older have not tried to calculate how much money they will need to have saved by the time they retire so that they can live comfortably in retirement.”
More than two-thirds of workers (69%) say they plan to work for pay after they retire — but only one in four (25%) retirees say they have done so.

**Income Sources**

There are also different expectations about sources of retirement income. According to the RCS, workers today are less likely to expect Social Security income in retirement (77%) than today’s retirees are to report having this income (93%). They are also half as likely to expect Social Security to be a major share of their income in retirement (33%) as retirees are to say that Social Security is a major share of their income (70%). EBRI research has shown that 60% of Americans age 65 or older received at least 75% of their income from Social Security.

Nearly half of workers age 45 and older have not tried to calculate how much money they will need to have saved by the time they retire so that they can live comfortably in retirement — and that’s pretty much how things stood a decade ago. Statistically, workers are no more likely to have done this calculation in 2013 than in 2003, according to the 2013 Retirement Confidence Survey, though the likelihood of trying to do a retirement savings needs calculation increases with age.

Retirement plan advisers know that retirement planning requires a number of critical assumptions — the age at which the individual hopes to retire, the amount of income they need and for how long, the sources of retirement income that will be available to you and in what amount(s), among other things. The RCS findings have shown that workers who have done a retirement needs assessment are more confident about their prospects than those who have not, and subsequent EBRI analysis has shown that those who sought the services of a paid financial advisor set more realistic savings goals than those who did not. We’ve found that workers who are not confident about their financial security in retirement plan to retire later, on average, than those who express confidence.

But what we’ve also seen in the RCS findings is that it’s one thing to plan to retire later — and another altogether to be able to do so.

The Retirement Confidence Survey, sponsored by the Employee Benefit Research Institute (EBRI), the American Savings Education Council (ASEC), and Mathew Greenwald & Associates, is the longest-running annual retirement survey of its kind in the nation. More information about the Retirement Confidence Survey is available online at http://www.ebri.org/surveys/rcs/.

» Nevin E. Adams, JD, is the Employee Benefit Research Institute’s director of education and external relations and co-director of EBRI’s Center for Research on Retirement Income. He is also the director of the American Savings Education Council, a national coalition of public- and private-sector institutions committed to making saving and retirement planning a priority for all Americans. He has more than 30 years of experience working with employee benefit plans.
Record Keeping Industry’s Micro Climates

Advisors need to know which providers play well in each sub-market so they make good choices for their clients and learn whom to work with based on the markets they cover.

After living in San Francisco for a few months, I was introduced to the concept of micro climates. It seemed that each neighborhood had its own climate, depending on how close it was to the Pacific Ocean and whether the neighborhood was protected by the hills from the fog that rolled in almost every day, especially in the summer. Temperatures and weather varied widely.

The 401(k) record keeping industry is like San Francisco’s climate — it has lots of sub-markets that act very differently. For example, compare Paychex to Hewitt. Are they even in the same industry? Both companies perform the same basic tasks of keeping track of records; they design plans, keep them in compliance and give them access to investment products — but they couldn’t be more different.

It’s important for advisors to know which providers play well in each market so they make good choices for their clients and learn whom to work with based on the markets they cover.

Like plan advisors, very few if any record keepers can serve all markets — although there are notable exceptions, the largest of which is Fidelity. But even Fidelity treats each of these divisions like separate companies because each market has different business and distribution models and different economics. Other major variables to consider include the types of investments offered and the service model — that is, bundled or unbundled.

Following are descriptions of the various 401(k) sub-markets and the different providers in each one.

Small/Micro (Under $3 Million)

Traditionally, the small/micro market has been dominated by the big four insurance providers: Hancock, ING, Nationwide and Principal. In the last 10 years, Hartford made a major run but stumbled after the Great Recession and was sold to MassMutual; and Great West became a force, followed by Transamerica. Other insurance providers include:

- OneAmerica, which bought McCready and Keene;
- The Standard, which bought Invesmart; and
- Securian, a subsidiary of Minnesota Life.

Guardian is trying to make a comeback, as is Lincoln, with smaller players like Mutual of Omaha, Ameritas and Unifi hiring industry pros to try to break into the big time.”
Many of the mid-market providers work very effectively in the large market, though each has its own particular ceiling.”

Merrill Lynch sells their mid-market service almost exclusively through their own advisors. Not new but making a comeback is Putnam, which outsources record keeping to Great West, its sister company. Along with Nationwide, Great West is moving up market — as is Hancock, with a new product and dedicated sales force. ING’s mid-market business came through its purchase of CitiStreet, which sold through its broker dealer Smith Barney (which is now under Morgan Stanley). Other smaller insurance companies have a presence in the mid-market, like The Standard, Securian and OneAmerica. Independent providers like Newport, Milliman and BMO (formerly M&I) are viable with unique services.

Large Market ($100 million–$500 million)
Many of the mid-market providers work very effectively in the large market, though each has its own particular ceiling. The $100-million-and-above market is very different, as advisors who service it know very well. One of the differentiators is the sophistication of the providers’ staff members who make finals presentations, because they will be competing against some well-heeled competitors.

Leaders in this market include the traditional direct providers like Fidelity, T Rowe, Schwab, Vanguard and J.P. Morgan; with Prudential, NY Life, MassMutual, Transamerica, Principal and Putnam doing quite well in the smaller end of this pool. Direct providers who have made a big commitment to advisors in the mid market may make more sales to larger plans directly. Merrill sells through their own advisors as well as to bank clients, as does Wells Fargo — although both sell outside their own bank and advisor networks. Mercer may come down below $250 million, but probably not Hewitt or Xerox (formerly ACS), who like to fish in very deep seas.

For a full list of national record keepers by market, distribution and service models, see our comprehensive list at http://www.napa-net.org/industry-lists/dc-national-record-keepers.
You advise others on options to develop a secure future on a daily basis, isn’t it your turn?

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Source: PLANADVISER Magazine (Sep/Oct 2012). 2012 PLANADVISER Retirement Plan Adviser Survey: 602 responses were received from retirement plan advisors. Questions included in the survey pertained to size and scope of the advisor’s qualified plan business, practice management, compensation, client service, and assessments of investment managers, mutual funds, and defined contribution (DC) providers. Fielded in July 2012.

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83% of plan sponsors have a **blind spot** when it comes to target date funds.*

But there is an opportunity for you to help change that.

Read more inside.

jpmorgan.com/retirementadvisor
Eighty-three percent of plan sponsors don’t fully understand the method to be used to effectively manage different types of risk.

Seize the opportunity to talk to your clients about the role of target date funds and how they can be used to effectively manage different types of risk.

How are you helping your plan sponsors select and evaluate target date funds?

Target date funds have typically been evaluated based on their historical risk-return profiles. An outcome-oriented approach requires a broader view of the many risks that can impact participant retirement security.
RECOGNIZE THE BLIND SPOT

The target date manager’s philosophy and approach to managing risk is critical.

• How is the manager diversifying across asset classes within the glide path?
• Does the manager have flexibility to adapt to changing market conditions?
• What role do strategic and tactical asset allocation play in the manager’s portfolio construction?

OTHER CONSIDERATIONS

Download the J.P. Morgan Perspectives paper, Redefining the safety option: Target date funds and risk management to learn more about the risks impacting participants as well as the effective solutions that you can offer to help mitigate these risks.

To learn more and access the full paper, please contact Mark Browne at Mark.Browne@jpmorgan.com or visit www.jpmorgan.com/retirementadvisor.
For further insights on how plan advisors can strengthen their relationships with plan sponsors, download our recently released 2013 DEFINED CONTRIBUTION PLAN SPONSOR SURVEY FINDINGS: EVOLVING TOWARD GREATER RETIREMENT SECURITY.

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*All statistical information is based on the 2013 J.P. Morgan Plan Sponsor Survey.

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Target date fund users are participants with at least 70% of their account balances invested in target date funds as of the first and last day of the measurement period. "Do-it-yourselfers" are participants with less than 70% of their account balance invested in target date funds as of the first and last day of the measurement period and also includes participants using online advice services, if applicable.

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