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Subject: **THE \$2 TRILLION ADVISOR OPPORTUNITY:
The Nonprofit Retirement Plans Market**

UNRECOGNIZED OPPORTUNITY

The trillion dollar opportunity offered by today's nonprofit retirement plans market is unprecedented, but it has not been fully recognized by advisors or the trade. On the other hand, **specialized advisors are quietly growing billion dollar blocks of nonprofit business.**

The nonprofit market is complicated, highly segmented and the slow moving decision-making process differs from the corporate world. Although U.S. retirement market reporting varies by source and category, we are not aware of any reporting source that fully characterizes the nonprofit market or recognizes the DB plan assets held in nonprofit plans.

To put the nonprofit market in perspective, note that the ICI reported total retirement assets at \$9.9 trillion at the end of 2010, excluding IRAs, Federal pension plans, annuities held outside retirement plans and nonprofit DB plans.

The \$9.9 trillion included \$4.5 trillion in DC plan assets, \$2.3 in private DB plans and \$3.0 trillion in State & Local Government plans. These numbers reflect the DC plan assets held by nonprofit plans, but they do not include the DB plan assets in those same plans.

Drilling down further, the ICI's \$4.5 trillion in DC plan assets included \$3.1 trillion in 401(k) plans, **\$760 billion in nonprofit 403(b) plans**, \$189 billion in 457 plans and \$530 billion in other DC plans.

In addition to the \$1 trillion in nonprofit assets held in a myriad of DC type plans, nonprofit DB plan assets are widely viewed to be equal to or greater than the DC plan assets held by those same plans. In other words, **the nonprofit retirement plans market is in excess of \$2 trillion, growing and the whole armada is up for grabs.**

DEFINING THE NONPROFIT MARKET

The primary components of the nation's nonprofit market include:

- Healthcare
- Higher Education
- K-12 (Public & Private)
- Charitable, Religious & Other
- Business & Professional

Excluding DB plans, the highly segmented nonprofit market consists of 39,000 plans, 12 million participants and nearly \$1 trillion in assets, primarily 403(b) plans. The composition of plans, assets and participants vary greatly by segment, but **the majority of assets, participants and opportunities are in the Higher Education, Public K-12 and Healthcare segments.**

The 403(b) market was not regulated or subject to fiduciary oversight in the past. After forty years of neglect, the IRS issued revolutionary type regulations designed to bring 403(b) plans in parity with 401(k) plans. Reflecting gaps in compliance, the first round of audits helped spark a thorough top-down review of plan design by nonprofit plan sponsors.

Driven by cost cutting, compliance, administrative burdens, fiduciary responsibility and participant demands, the nonprofit market has been completely transformed. As a result, **the compliance challenges facing 403(b) plan sponsors with less than 500 employees offer advisors a unique opportunity.**

Something else lost in the retirement reporting statistics is the fact that **nonprofit entities are more than likely to offer multiple plans.** 403(b) plans certainly contain the majority of DC plan assets, but many nonprofit employers also offer 401(a), 457, 401(k) and DB plans.

Approximately half of the nonprofit plan sponsors offer a DB plan, particularly those with more than 1,000 employees. Unlike corporate counterparts, **nonprofit sponsors generally rely on their DC service providers for DB plan administration.** The holistic approach preferred by nonprofit sponsors is an important observation because few vendors are positioned to capture this business today.

DB plans are in transition and trending towards hybrid design. Nevertheless, if we combine the \$2.3 trillion in private DB plans, the \$3.0 trillion in State & Local Government plans (primarily DB) and the \$1 trillion plus in nonprofit DB plans, DB plans represent a deep pool of assets far greater than generally recognized. Indeed, **a major portion of the DB plan assets captured by full service providers during the first half of 2011 emanated from nonprofit plans.**

The regulatory impact was delayed, but 403(b) plan sponsors plans are currently **seeking independent advisory assistance**. The majority of the companion DB business is, however, being driven by the consulting community rather than retirement advisors. To date, RIAs and advisors are frequently, rigidly and somewhat superficially screened out of the companion plan opportunities. Many are eliminated because they have not learned the vernacular, but CFDD '11 will fix that.

MAXIMIZE NONPROFIT OPPORTUNITIES AT CFDD '11

Plan Level Opportunities

Driven by self interest, 403(b) trade associations continue to support the status quo and the non-competitive multi-vendor products that have been sold to the nonprofit market in the past. Their misguided defense of choice and attempts to block competitive bidding and a fiduciary standard of care do not hold water.

In terms of participant advocacy and fiduciary responsibility, these associations are on the wrong side of history. The availability of open architecture *participant advice* through the new TIAA-CREF Advisor Network further undermines their position.

Trade associations may continue to defend product manufacturers with high investment expenses, high commissions, surrender charges and distributors who are not licensed to provide advice. On the other hand, individuals who care about participants within these associations, teachers, unions and legislators fighting the competitive bidding process will, however, eventually succumb to what is in the best interest of plan participants.

Multi-vendor plans are extremely difficult to manage under the new regulations and they make it almost impossible for ERISA plan sponsors to meet their fiduciary responsibilities. Based on misinformation, well funded lobbyist efforts and marketing skills, the nation's teachers are also being preyed on and robbed of a quality retirement by product manufacturers. Fortunately, independent advisors can and will be the key to transforming this market segment.

Designed by qualified independent advisors, **the replacement of multi-vendor products with institutionally priced, open architecture, single vendor programs represent the greatest plan level opportunity in decades.** With over seven million educators dependent on supplemental savings programs, **more than \$300 billion in K-12, Community Colleges and Public Higher Education assets are expected to come into play.**

According to Marcia Wagner (Managing Director, The Wagner Law Group), “Universities that adopt 401(a) plans (DB or DC) are subject to ERISA. If they maintain 403(b) plans with matching or other employer contributions and are discretionarily involved, they are also subject to ERISA.”

As noted by Joe Masterson, (Chief Sales & Marketing Officer, Diversified) “The higher education nonprofit market offers advisors with fiduciary process skills the best growth opportunity I have seen in my thirty-five years in the business. The multi-vendor scenario is caving in and **retirement plan specialists have all the fiduciary skills they need to compete with the consulting community.**”

Given that the underserved Higher Education market contains rich plans with little formal structure, we concur with Masterson. While the opportunity is real, it is important to note that these assets are already in play. In short, **advisors must pursue this business now!** To chart the course, CFDD ’11 will illuminate the path with numerous “How To” conference sessions.

To help advisors capture nonprofit DB plan assets on the move, Marcia S. Wagner (Managing Director, The Wagner Law Group) and Brodie Wood (VP, NFP National Practice Leader, Diversified) will **provide techniques advisors can use to showcase their skills and value.** Some of these session techniques include fee reductions, asset aggregation, hard freezes, soft freezes and the implementation of various interest and mortality tables.

Wagner and Wood will also illuminate the legal aspects applicable to 403(b) plans using financial products that do not comply with ERISA’s fiduciary standards, contract issues and litigation. Given that a growing number of 403(b) sponsors are interested in converting to institutional programs, they will also **arm advisors with takeover strategies**, including negative election, surrender charge management, vendor & sponsor subsidies and contract renegotiation.

The Principal Financial Group’s Vince Rainforth (VP Tax Exempt Market) and Henry Tebben (VP, National Director of DB Business Development) will **shed more light on why nonprofit DB plans are under more stress** than private DB plans, including the market downturn, reduced charitable contributions, PPA funding requirements and antiquated plan design.

In addition to providing guidance on how to gain access to companion plan opportunities and RFP tips, Rainforth and Tebben will **provide advisors with the tools for tapping into this underserved market and help sponsors build an ERISA friendly offering.** The dynamic duo will also provide guidance on the best ways to manage the unique fee disclosure challenges faced by 403(b) plan sponsors.

This powerhouse session will be joined by three other nonprofit gurus, Tom Scalici (Managing Director & CEO, Cornerstone Institutional Investors), Robert J. Toth, Jr., (Principal, Robert J. Toth Jr.) and Robert Lavenberg (Partner, BDO Seidman). Scalici’s RIA firm has \$2.8 billion in qualified plan assets under advisement, including **\$700 million in 403(b) assets.** Additionally, Cornerstone manages another \$1 billion in Endowment & Foundation assets.

Participant Level Opportunities

Some retirement plan advisors provide *plan* level services, some focus on *participant* advisory services, some do *both* and others *refer* business. Growth opportunities are available in all these areas, but advisors providing plan level services should note that some vendors view communication and education as a participant advisory service.

403(b) plan sponsors are particularly sensitive to retirement readiness. In addition to being advice friendly, they are also advisor friendly. As a result, RIAs have a unique opportunity to prudently **guide nonprofit plan sponsors through a retooling of their education curriculum.** While few realize it, **benevolent nonprofit plan sponsors have led the charge to offer participant advisory services.**

We have talked about the long term growth potential for *scalable* (vendor facilitated batch trading, fee deduction, software downloads & compliance reporting) participant advisory services for several months, including managed portfolios, participation & communication services and participant elected managed accounts.

The regulatory environment is becoming increasingly complex, but technology is evolving rapidly and participant advice has become multi-faceted. As a result, **the participant delegation of discretionary authority to an advisor who is subsequently able to actively trade and manage their account on a centralized basis will become a major trend.**

The 403(b) market is not only changing, but **pioneering the future delivery of open architecture participant advice.** Rob Rickey (Director, Advisor Services, TIAA-CREF) will discuss the new game changing TIAA-CREF Advisor Network during his CFDD '11 breakout session and how it will impact RIA business.

Savvy RIAs are viewing advisor friendly vendor platforms as distribution channels and potential co-branding/marketing partners for plan level bids. In addition to providing guidance on advisor constructed model portfolios, Amy L. Simonson (VP Finance & Operations, Verity Investments, Inc) and Sean Lyons (Sr. Consultant, Cornerstone Institutional Investors, Inc) will discuss the integration of RIA platforms for actively managed participant solutions during their CFDD '11 sessions.

Like Cornerstone, Verity Investments is a successful RIA firm providing plan level integrated advice solutions and participant elected managed accounts. The firm has niche presence at various educational institutions, including universities, hospitals, community colleges and public school systems. From a technology standpoint, Verity is way ahead of the pack and their RIA platform integrates directly with TIAA-CREF and Fidelity Investments.

ADDITIONAL OPPORTUNITIES: State & Local Government Pension Plans

Governmental plans certainly aren't for profit plans and many consider them a sub-segment of the nonprofit market. Nevertheless, most observers do not consider the State & Local Government market part of the nonprofit market. It is, however, similar in many ways, but most entities offer 457 and/or DB plans in lieu of 403(b) and other DC plans.

As noted by Charlie Nelson (President, Great West Retirement Services), "The State & Local government plan market is very different than the private sector 401(k) market." Small to mid-sized public entities generally offer a multi-vendor environment in their 457 plans. Based on the approach and local politics, not many advisors are active in this market segment. On the other hand, larger State & Local Government plans generally engage consultants in the RFP process which typically includes a single vendor.

The \$3.0 trillion held in State & Local Government pension plans, primarily DB plans, is certainly challenging, but it offers hungry advisors an additional opportunity. Budgets are tight and while cost cutting is a priority, advisors in the CFDD's network are beginning to crack the code to this business.

Most advisors working this area are focusing on plans over \$25 million, but smaller governmental entities, i.e., instrumentalities and counties, seem particularly ripe for advisors who have local contacts. The opportunity is further bolstered by the fact that the products sold in this market segment are particularly odorless.

THE BATTLE OVER MEPS

Recent informal comments made by the DOL have raised concerns about the structure of some of the newer Multiple Employer Plans (MEPs). Subsequent publications centered on the DOL's comments have been somewhat critical of MEPs and they were countered by vociferous response from advocates. Some large plan RIAs are also rumored to have complained to the DOL about the fiduciary claims made by small plan advisors during the sales and marketing process.

The DOL's concerns appear to be focused on TPAs who are attempting to establish MEPs by using prototype documents that were not designed for these plans. There may also be some concerns about TPAs serving as the plan sponsor or lead employer as well. Additionally, some feel the IRS and the DOL may have different views about the Form 5500 reporting requirements.

As noted by Terrance Power (President, American Pension Services), “**MEPs are clearly something inexperienced TPAs should not venture into on their own.**” Power is an advocate of the societal benefits offered by MEPs and he will discuss them in more detail during his CFDD ’11 breakout session on: *Multiple Employer Plans: A Fiduciary Risk Solution?*

MEPs have been around for a long time, but recent technological advancements in the collection and processing of data have broadened their appeal as a cost-effective solution for small employers. The non-traditional MEP approach offers a number of positives for small employers, but it also comes with constraints.

Regardless of one’s view of MEPs, **fee disclosure and a broadening of the fiduciary standard could have a major impact on MEPs.** Indeed, given that adopting employers do not contract with service providers by the very nature of their relationship with the MEP, they may not have to navigate the confusing 408(b)(2) benchmarking and documentation shallows. **Advisors servicing a well-structured MEP may also avoid becoming a named or functional fiduciary, allowing them to participate in the \$2 trillion rollover market** expected in the next five years.

As noted by Jamie Worrell (President, GPS Investment Advisors & Retirement Plan Advisor of the Year, “As the *fiduciary heat* gets turned up, the appetite for MEPs will increase. In addition to simplifying the servicing of rollovers, it frees up advisors and adopting employers to focus on boosting deferrals, participation rates and improving allocations.” Given the impact MEPs could have on the small plan market, the solicitation of rollovers and the BD community, the next CFDD newsletter will be devoted to MEPs.

CFDD 2011 ADVISOR CONFERENCE

The Center for Due Diligence’s October 17-19, 2011 Advisor Conference, *Participant Advice, Retirement Income & New Growth Strategies*, is the premier education and networking event for the retirement plans advisory industry. The must attend event includes two and one-half days of unmatched value and **exclusive growth solutions designed to put money in your pocket and facilitate face-to-face networking.**

The broad and diverse agenda will **help advisors leverage the increasing demand for participant advisory services, differentiate, gain a competitive edge and grow new higher margin business**, including communication & education services, model portfolios and participant elected managed accounts. We will also illuminate the path to scalability, co-branding for plan level bids, how vendor platforms can be used to distribute advisor services and more.

The toxic products sold in the 403(b) market are caving in. CFDD '11 will **show advisors how to tap into the greatest plan level opportunity in history**, including DB plans under far greater stress than corporate counterparts. Nonprofit plan sponsors are aggressively seeking independent fiduciary guidance and major assets are in play. To help advisors capture 403(b) and rich companion plans, we will **provide takeover strategies and specific guidance on how to get past the screening process**.

The CFDD's content rich agenda remains at the top of the food chain and our *sixty* different sessions are populated by a Who's Who of recognized industry experts. Known as the *King of Content*, more accomplished retirement plan advisors attend the CFDD's Advisor Conference than any other industry event and our ratio of advisors to total registrants remains unmatched.

We know that hiring, training, succession planning and scalability are the biggest business challenges facing advisors today. Practices can't grow without staff and they can't be monetized without succession planning. Enrich your staff by **bringing one immediate team member at NO additional cost**.

CE credits are invaluable to overburdened advisors with limited time and resources. To add value and increase efficiency, the CFDD's Advisor Conference provides **a single source solution for unmatched core CE credits**, including IMCA, CFP, fi360, ASPPA, NIPA, FSS, IBF, CFA, SPARK, The American College, the College For Financial Planning and more.

As an added bonus, attendees can **earn the Accredited Investment Fiduciary (AIF®) designation by attending fi360's pre-conference training** on Sunday, October 16, 2011, the day before the CFDD's Advisor Conference. In addition to attending the conference and earning the designation, you would benefit from *additional* CE credits applicable to the CFP, IMCA, NASBA, The American College and more. To register for the fi360 wraparound training program, email Carl@fi360.com or call (866) 390 5080 x228.

Only CFDD '11 attendees will **gain access to exclusive participant advice competitive analysis**, a fiduciary insurance discount program, a conference CD-ROM and online access to all prior conference presentations.

Complimentary food, beverages, snacks, a disco-themed networking Kick-Off Party, prizes, **FREE spousal attendance and a Grand Prize Trip To Las Vegas** for two - including accommodations at the world class Bellagio Hotel - are all included in the registration fee.

The nonprofit retirement plans opportunity won't last. Recognizing the urgency to act now, CFDD '11 will serve up growth opportunities on a silver platter. To register, **learn how to participate in the last great retirement plans opportunity**, find out what is working from your peers and benefit from business building takeaways, go to the conference homepage at: <http://www.thecfdd.com/CFDDconference2011> and click on online registration.

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