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Subject: **SPECIALISTS, GENERALISTS & MARKET SEGMENTS**

The CFDD has a multi-decade history with retirement plan specialists, lists and databases of top producing advisors. We have also talked extensively about consolidation and the maturing retirement plans industry.

The DCPI Weekly Exchange recently published an article by Pat Oberlander (Director of Corporate Retirement Plans, UBS Financial Services) on on [*The Future of the Short-Sleeve 401\(k\) Advisor*](#).

We have known Oberlander for decades and he has been a very credible ambassador for the industry. Pat has been building home office support for B-D retirement programs for over twenty years, including the benchmark McDonald Investments (purchased by UBS) home office program. He was a major factor behind the UBS Select and Advisory programs and we don't know anyone more skilled at training advisors. Indeed, his former employees have gone on to create very successful practices.

Most of Oberlander's observations in the article are in the bull's eye and while his jaundiced view about the demise of relationship selling below the mid-market is correct, a few of his points could benefit from more granularity.

It is certainly harder for non-specialists to compete in today's maturing retirement plans marketplace. The DOL's attempt to redefine the definition of an ERISA fiduciary could also be a game changer. A broadened fiduciary definition would impede cross selling and that is one of the reasons we are optimistic about the future for MEPs. The wirehouses don't favor the reduced plan level compensation associated with MEPs, but select regional B-Ds have already added MEPs to their arsenal.

The new disclosure rules may impact generalists disproportionately, but as noted by Oberlander, advisors who are reluctant to disclose compensation, the services provided and the fiduciary status of those services are in the wrong business. Indeed, advisors must not only define their value, they must be skilled at articulating that value. Not surprisingly, **advisors with relationships, value added services and the ability to communicate their value have a huge advantage.**

While the wirehouses have carved out retirement plan specialists for partnering and advanced training, including *institutional* and *institutional light* groups, their sales forces have been very successful at selling to existing relationships. Oberlander's positive observations about relationship selling are also reinforced by their solid sales numbers.

RELATIONSHIP SALES

With bank stocks under pressure and cost cutting everywhere, working for a bank owned wirehouse is no walk in the park these days. Nevertheless, the troops are hunkered down and banging out the sales. **The industry lacks a standard definition for reporting new sales**, but ignoring acquisitions, DCIO sales, plan contributions, company stock and plan growth, unofficial trench level input indicates that Merrill Lynch will capture more than \$7 billion in new retirement plan assets during 2011.

To help small business owners to meet their retirement plan needs, nearly one-half of Merrill Lynch's 16,000 advisors work with small business owners. The highly effective sales force has also strengthened their partnership with the bank and one-third of the nation's mid-sized firms have a business relationship with Bank of America. According to an article in the Bank Investment Consultant, approximately 40% of their new commitments are emanating from existing bank clients.

New retirement plan sales at MSSB, UBS and Wells Fargo all appear to be in the \$3 billion range, but the MSSB numbers may be higher. While it's hard to identify LPL's sales, the largest independent B-D, their new retirement plan sales will probably be in excess of the non-Merrill Lynch wirehouses.

The view from the street indicates that specialty groups like Gallagher, SageView, CapTrust and 401(k) Advisors will probably capture \$1-2 billion in new retirement plan sales during 2011. These firms are moving up market and the numbers could be increased if large nonprofit plan bids come to fruition. Gallagher has been growing rapidly in recent years and their new retirement plan sales may actually be much higher

Based on a percentage of new sales, it is interesting to note that **the distributor entities mentioned above will probably capture close to one-third of the total new retirement plan assets changing hands during 2011.** Continuing a trend we predicted years ago, **BOR turnover is approaching 50% of total new sales at some of the wirehouses.**

Going forward, **the CFDD will commit resources to tracking new sales by the primary distributors, including assets, plans and revenue generated. The invaluable reporting will be *standardized* and include caveats for those who wish to use it for sales purposes.** LIMRA provides detailed data on vendor sales, but we aren't aware of any reliable reporting that covers distributor sales. We will also monitor the retirement plan assets under advisement by these distributors.

To put distributor sales in perspective, note that vendors like Principal and John Hancock are expected to generate about \$5-6 billion in new retirement plan sales during 2011. Unknown to industry observers, **vendor reporting differs sharply from distributor sales.** In other words, vendors don't include contributions from new plans, existing plans or BOR takeovers in their reporting. If contributions and BOR turnover were included, the sales reported by Hancock and Principal would probably be around \$10 billion.

Like distributors, vendor sales emanate from different sources, i.e., half of Principal's sales may include nonprofit and DB plan business, areas where John Hancock is not active. John Hancock also services plans below Principal's targeted market.

While some may refute it, we see little change in market share between consultants and top tier advisors, i.e., the consultants are moving down market and the advisors are moving up market. Consultants have, however, been effective at precluding advisors from bidding on companion plan business, particularly DB plans.

WHAT DRIVES SMALL PLAN SPONSORS

Hindered by the management of their own business, small plan sponsors lack investment and retirement plans knowledge. Unknown to the industry, **small plan decision making is driven by relationships, recommendations, ease of doing business and reduced burden on their staff.**

Small plan decisions are not driven by fiduciary status, but fees do play a role. Service and communicating value are central to success, but **a growing number of generalists are undercutting the fees of their competitors and winning business in the small plan market.** The winning generalists may not be as skilled as their competitors and they may not be providing comparable services, but they are zeroing in on reducing the sponsor's burden. They are also telling plan sponsors what they want to hear rather than what they need to know.

The retirement plans industry varies significantly by market segment. It is also a takeaway business and **generalists continue to capture business from other generalists in the small plan market**, particularly broker of record changes. On a collective basis, generalists represent about 50% of all new retirement plan sales when measured by plans sold, but that number shrinks significantly when measured by assets.

Given that advisor margins are already too low, **the undercutting of fees in the mid and large plan market is becoming a challenge for the retirement plans advisory industry.** Regardless of the self-serving copy in trade publications, sponsors have a difficult time quantifying the value offered by different advisors. This challenge has been compounded by the collateral marketing tools made available by the vendor community.

The proliferation of these support tools is forcing sponsors to make a decision based on fees, the only variable they can objectively evaluate. Because many advisors are quoting fees below the cost of delivering the services, this dilemma has not yet played out. One can only assume they are salivating over the cross selling opportunity, a potential prohibited transaction.

RIFLE vs. THE SHOTGUN APPROACH

Distributor organizations are attempting to segment specialists for referrals and partnering - no small task - while vendors are increasing their focus on retirement plan specialists.

Oberlander noted that wholesalers worth their weight in basis points know who the heavy hitters are, but that may not matter in the relationship driven small plan market. We agree with the observation about relationship selling below the mid-market, but **we do not believe vendors have fully identified the large pool of retirement plan specialists.**

Given the wholesaler turnover, it doesn't make sense, but our own empiric work has proved to us that **there is not much overlap among the targeted lists of top retirement plan specialists used by competing vendors, including those focusing on the same market segment and distribution channel.**

Vendors still have a long way to go in terms of identifying the “A” and “B” team specialists as well as the productive DCIO specialists. In other words, **the pool of top producing retirement plan specialists is far bigger than generally recognized.** Consistent with this observation, the CFDD’s database has tripled in the last few years.

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 their 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. You may also click on the buttons below

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