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Date: December 26, 2011

Subject: **THE IMPACT OF DISCLOSURE ON CONSOLIDATION**

### **A HIGH RISK ENVIRONMENT**

The mixed economic recovery, investment markets, compliance and geopolitical conditions continue to present unprecedented challenges. With a globalized world held together with spit and glue, seismic shocks cannot be ruled out. Given that there is no margin for error, **focusing on the bottom line is paramount to survival and success.**

The U.S. economy, the financial services industry and the retirement plans market have all matured. In addition to growing litigation risk, **compliance has become exceedingly costly, burdensome and almost impossible.** Full compliance may not be possible and DOL efforts to broaden the ERISA fiduciary definition will further muddy the water. It will also cause some providers and elements in the B-D community to limit their services.

Competition has intensified, differentiation is increasingly difficult and margins are compressing. At the same time, **clients are demanding more** and tax code changes could have a major impact on the industry.

Cost cutting is at best a temporary solution. While re-investment is time consuming and costly, **advisors must scale their practice efficiently** to remain viable. Those who fail to increase efficiency will struggle to survive, particularly the sole practitioner.

In addition to increasing efficiency through scalable solutions, retirement plan **advisors must increase their volume, diversify and develop higher margin business.** To increase volume, advisors must participate in consolidation.

You won't read about it in trade publications, but **retirement plan advisors will not be able to participate in consolidation without the ability to influence positive outcomes, reduce risk through good governance, differentiate with a more holistic business model and proactive compliance solutions.**

Given the high risk environment and the potential for a perfect storm, **the CFDD will devote 100% of our time, resources and advisor conference takeaways to helping advisors:**

- **Increase Volume**
- **Develop Higher Margin Business**
- **Save Time**
- **Increase Efficiency**
- **Identify Scalable Solutions**
- **Reduce Cost**
- **Improve Margins**
- **Mitigate Risk**

Two of the numerous CFDD '12 Advisor Conference sessions devoted to increasing efficiency include: *Managing An Efficient Practice For Improved Margins* by Ann Schleck (Principal, Ann Schleck & Company) and Dana Hartwell (Sr. VP, DCIO Sales, Natixis). Continuing the theme, David Witz (Managing Director, FRA/PlanTools) will make the presentation on *Scalable & Cost Effective Plan Level Benchmarking*.

**An expanded fiduciary definition could cause a spike in E&O insurance policy reviews and the need for affirmative fiduciary coverage.** Given the CFDD's commitment to growth, profitability and risk mitigation, NAPLIA will moderate the CFDD '12 presentation on *How The Expanded Fiduciary Definition Will Impact E&O Policies & The Need For Affirmative Fiduciary Coverage*.

It's hard to comprehend, but many registered reps and dually registered advisors are still unable to obtain copies of their B-D's insurance policy and confirm their fiduciary coverage. From a business standpoint, these advisors are faced with three choices: They can continue to swim blindly, leave the firm or purchase their own coverage.

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### THE ADVISOR'S ROLE IN DETERMINING OUTCOMES

The decisions that improve outcomes are often beyond the committee of decision makers and the advisors serving the plan. Nevertheless, **sponsors are best served by defining plan success at some level and measuring their results against that goal** rather than simply offering a plan.

Advisors can certainly influence plan design, communications, simplified enrollment, income replacement and TDFs default at conversion, but they can't control the biggest incentive to participate, the company match. The cost of auto-enrollment/escalate may also limit plan design for some sponsors.

Given the aforementioned, subjective metrics based on outcomes make little sense to many advisors in the CFDD's network. Contrastingly, others are adamant that plan success can and should be measured. The latter group firmly believes that **advisors control the levers to success**.

Jeff Gratton (Corporate Retirement Plan Consultant, SageView Advisory Group) is among the latter. Gratton is quite vocal in noting that **a holistic approach to plan level consulting has consistently proven that advisors can influence outcomes.** He further notes that success is not based on subjective metrics and that good governance does not help participants retire with dignity.

While the views and definitions of holistic consulting vary widely, Gratton will moderate the CFDD '12 Advisor Conference session on *A Holistic Approach To Retirement Plans Consulting: A Path To Consolidation.*

Outcomes based consulting is a primary CFDD '12 theme and other sessions include: *Success Metrics* and *Expanding/Differentiating Your Value Proposition.* To ice the cake, Joe Masterson (Sr. VP, Chief Sales & Marketing Officer, Diversified) and Stig Nybo (President, Transamerica Retirement Services) will co-present the keynote session on *Outcomes Based Consulting: Transitioning From Advisor To Consultant.*

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### DISCLOSURE & ADVISOR STRATEGIES

Given that the plan sponsor community, providers and the financial services industry are not ready for the new disclosure requirements, the applicable dates may be extended. Unfortunately, unintended consequences typical of excessive governmental involvement are likely, including small plan terminations, reduced participation, reduced contributions and account transfers to less competitive retail funds. The participant level “over and above” disclosure could also increase the use of higher cost funds with revenue sharing.

After they start receiving the new 408(b)(2) disclosures covering services, all forms of compensation, fiduciary status and other special disclosures, **plan sponsors must review and analyze the plan level information to determine reasonableness.** Sponsors must also identify and manage conflicts as well as determine whether not to continue the arrangement.

Without the required disclosures, the arrangement is a prohibited transaction that must be corrected. It may also be subject to an excise tax. Fortunately, the regulation contains an exemption for sponsors who satisfy certain conditions, including requesting missing or incomplete information and sending a written notice to the DOL if the service provider fails to comply.

Evaluation is no easy task and **the process will no doubt lead to increased benchmarking and a corresponding spike in RFPs.** The aforementioned RFPs will scrutinize vendors as well as advisors. As the industry matures, **credentials, experience, fiduciary status, practice depth, insurance coverage, bonding and compliance solutions will play a larger role in qualifying advisors asked to participate and/ or manage the RFP process.**

While much has been written about plan level disclosure under 408(b)(2), Section 404(a)(5) requires quarterly and annual *participant level* disclosure covering investment related information, including expense and fee information. Changes must also be communicated at least 30 days in advance.

On a collective basis, 401(k) related fees have never been excessive and they remain the most cost effective way for the average person to save. Nevertheless, nothing is free - including investments - and **participants may be confused the first time they see the new disclosure on their account statements.** As a result, the trade should be prepared for an initial barrage of participant-related questions.

The increased disclosure will lead to more exposure and lost business for some, but **more seasoned advisors with compliant solutions will reduce exposure, retain clients and increase volume through consolidation.**

Because the new regulations require service providers to list the services they provide, **registered reps providing model portfolios, plan level investment advice or participant level investment advice may be constrained by new home office policies designed to circumvent fiduciary status.** If limitations are imposed, commission-based advisors will have to justify their value proposition to stay in the game and we will discuss this in more detail in our next newsletter.

Plan services, pricing methodology and defined advisory relationships common in the large plan market are now permeating the mid-market. Given that benefit costs and cost control are top of mind, the allocation of plan expenses will certainly be included in the discussion.

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### B-D DISCLOSURE CHALLENGES

To shed some light on how the B-D community is managing the challenges posed by 408(b)(2) and 404(a)(5), the Pension Resource Institute (PRI) will conduct the CFDD '12 Advisor Conference session on *The Impact of Disclosure On Advisory Practices & Consolidation*.

To add value, we have asked PRI to dig deep and discuss how the B-D community is managing specific revenue sharing disclosures, including the allocation of flat dollar mutual fund payments, shelf space revenue that covers retail & retirement plan assets and the tracking of assets held away on platforms like Schwab, Fidelity, Hancock, etc. Revenue sharing for self-cleared funds on B-D platforms must also be accounted for along with negotiated deals applicable to the Pershing types.

In addition to B-D reporting requirements, Matrix type entities and TPAs must report disclosure information as well. While a few may have something under development, TPAs are vacillating and vendors capable of providing solutions have reported few sales.

As you can see, disclosure goes way beyond a compliant contract. Indeed, margin poor B-Ds **must gather and track information they have never been asked for in the past.** This is quite important because non-compliant advisors risk losing their ability to serve retirement plans and collect compensation. A conviction of just *one* offense could prohibit advisors from collecting income and serving *any* plan for up to 13 years.

404(a)(5) presents unique challenges for advisors serving the needs of retirement plan sponsors. Compliance is *not* optional and **advisors without a solution are out of business.** Without a scalable solution that can be leveraged, advisors will be overburdened with manual compliance, further reducing margins and suppressing new business initiatives. Advisors basing their value proposition on building customized model portfolios will find it virtually impossible to continue without automating the new reporting requirements.

In response to the need for direction, the CFDD will sponsor a webinar in conjunction with FRA/PlanTools and Alliance Benefit Group of Illinois during the month of January. A dedicated email invitation will follow. For a sample of the 408(b)(2) and 404(a)(5) disclosure solutions offered by FRA/PlanTools, contact [dwitz@fraplantools.com](mailto:dwitz@fraplantools.com).

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### CFDD 2012 ADVISOR CONFERENCE

The CFDD's October 22-24, 2012 Advisor Conference, *Outcomes Based Consulting, Higher Margin Business & Increased Efficiency*, is the premier education and networking event for the retirement plans advisory industry. The two and one-half day, Monday-Wednesday conference offers **more VALUE, CONTENT, CONVENIENCE and specialized advisor ATTENDANCE than any other event.**

Known as the *King of Content*, the CFDD's broad and diverse agenda remains at the top of the food chain. The *fifty* different breakout sessions are populated by the most sought after speakers as well as the industry's most accomplished advisors.

The **seven blockbuster keynotes include Fred Reish's exclusive and game changing presentation on *Benchmarking Advisor Fees From A Legal Perspective.*** The industry's most prestigious research organizations will also participate, including Spectrem Group, Chatham Partners, LIMRA & Brightwork Partners.

The economic recovery and the investment markets remain challenging. With the retirement plans market and the financial services industry maturing, full compliance has become almost impossible. Competition has intensified, differentiation is increasingly difficult and margins are compressing. At the same time, clients are demanding more and tax code changes could have a major impact on the industry.

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**Given the changing dynamics, advisors must increase their volume, improve efficiency through scalable solutions, diversify and develop higher margin business. Because advisors cannot participate in consolidation without influencing positive outcomes, differentiating with a more holistic approach and reducing risk through good governance, CFDD '12 will provide the applicable deliverables.**

In addition to the aforementioned, CFDD '12 will *Emphasize Investment Approaches With Pricing Power, Returns Beyond Performance, Model Portfolios, IAR Distribution Of Participant Elected Managed Accounts, ERISA Vs. Non-ERISA Fiduciary Standards, Who's Winning & Losing In The Nonprofit Markets, The Impact Of Tax Code Changes, Qualifying RIA/IARs Providing Participant Level Advice, Success Metrics and Behavioral Finance.*

Hiring, training, succession planning and scalability remain the biggest business challenges facing advisors. Practices can't grow without staffing and they can't be monetized without succession planning. To enrich their practice, **advisors may bring one immediate team member at a 50% discount.**

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, IBF, CFA, SPARK, The American College, the College for Financial Planning and more. As an added bonus, **conference attendees can earn the Accredited Investment Fiduciary (AIF®) designation by attending fi360's discounted pre-conference training.**

Attendees further benefit from early registration discounts, a fiduciary insurance discount program, **a conference CD-ROM and online access to ALL prior year conference presentations, including the audio files of each presentation.** To access the 2011 conference presentations and Mp3 audio files, go directly to: <http://www.thecfdd.com/CFDDconf2011presentations>.

In addition to **FREE wireless** in the guest rooms, the meeting rooms and the exhibit area, the hotel's **cell phone reception is excellent.** A charging station and cyber café are also available and spouses may attend the conference at NO additional cost.

Complimentary food, beverages, snacks, cocktails and a **NASCAR themed Kick-Off Party are all included in the registration fee.** Sponsored by Allianz Global Investors, Simulated **Racecar Gameplay Competition** with meaningful **cash prizes** is also included.

NASCAR will be the marketing theme and feature a TIAA-CREF sponsored **Primary Grand Prize Box Seat Package To The Daytona 500**, including beachfront accommodations. A **Secondary Grand Prize Package To The Charlotte ALL-Star May Race** will also be offered, including a hot pit pass (access to everything except the race car) and **Buck Baker Racing School Classes** on the Charlotte Motor Speedway. To qualify for the grand prizes, registrants must stay at the conference venue, the convenient downtown Chicago Swissotel.

Recognizing the urgency to act now, CFDD '12 will provide **UNBIASED guidance and exclusive GROWTH SOLUTIONS** to elevate your practice. For more information on the CFDD's 2012 Advisor Conference, go to the conference homepage at: <http://www.thecfdd.com/CFDDconference2012>. To register early, **SAVE MONEY**, find out what is working from your peers and benefit from business building takeaways, register online by going directly to: <http://www.regonline.com/Register/Checkin.aspx?EventID=1026462>.

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