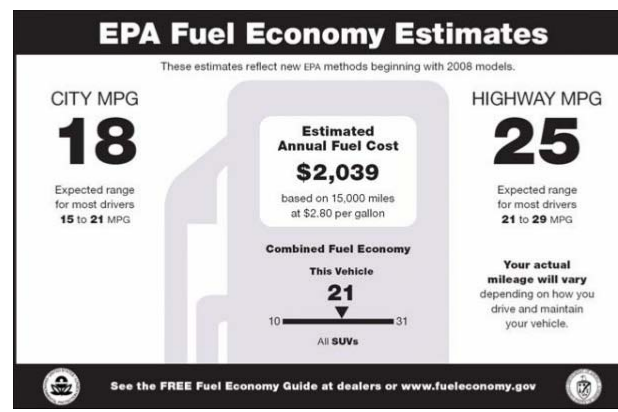
Value Standards: The Next Logical Step for our Industry

May 2011

Tom Kmak, CEO

Fiduciary Benchmarks

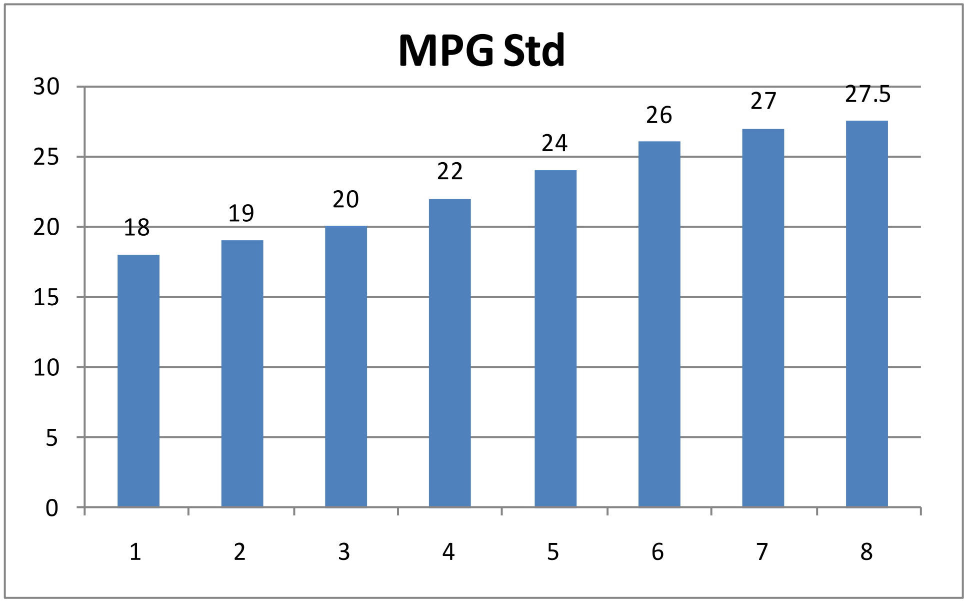
Remember this?



An Important Value Standard

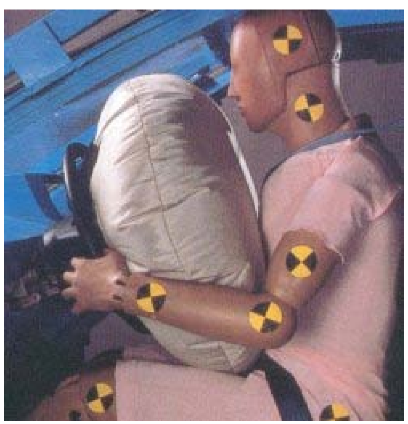
What is CAFE?

Corporate Average Fuel Economy (CAFE) is the sales weighted average fuel economy, expressed in miles per gallon (mpg), of a manufacturer's fleet of passenger cars or light trucks with a gross vehicle weight rating (GVWR) of 8,500 lbs. or less, manufactured for sale in the United States, for any given model year.



General Motors announced that it believes its rechargeable, electric-powered Chevrolet Volt will achieve an EPA-rated gas mileage of 230 miles per gallon in city driving. For comparison's sake, the industry leader Toyota Prius only gets a measly 48 miles per gallon.

Other Value Standards for the Auto Industry



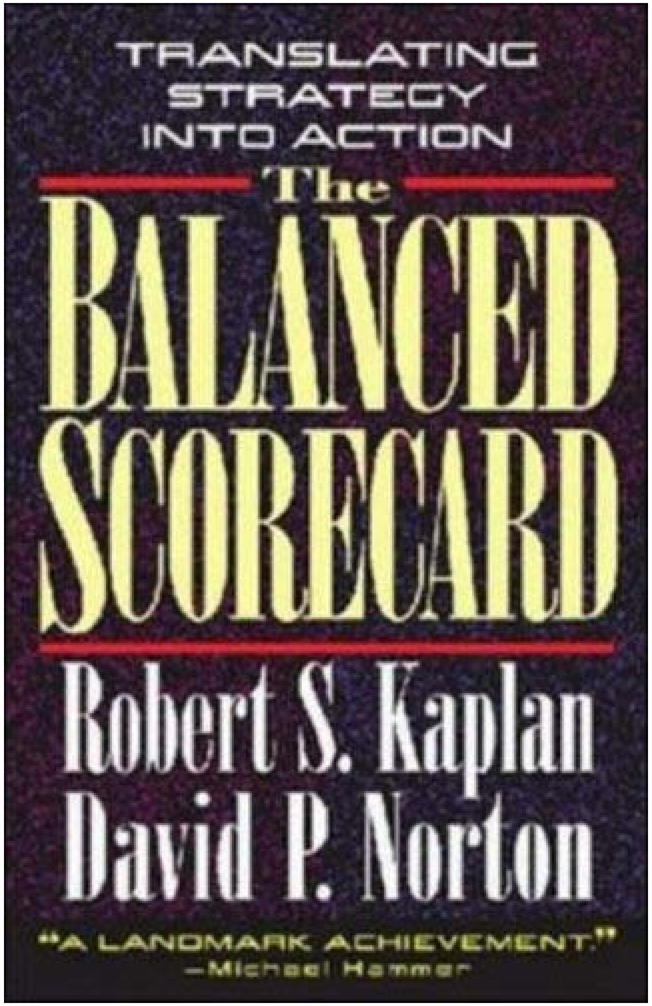
Value Standards for Other Industries

- Speed/Quality of Processor
- Disk Storage Capacity
- Ease of Use

- Number of Hospital Days
- Recovery Time
- Probability of Success

- ???

The Balanced Scorecard



- **"Lag" Metrics**
  - *Define* "What is Winning"
  - Typically CANNOT be managed directly

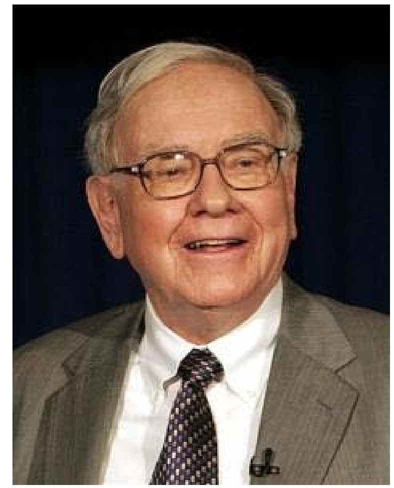
- **"Lead" Metrics**
  - *Predict* "What is Winning"
  - Typically CAN be managed directly

Our Industry's Value Standard

"What *is* Winning?

- Performance

"What *predicts* Winning?"



- People
- Process
- Price

Two Client Constituencies

PLAN SPONSORS

PARTICIPANTS

What is the Press concentrating on?

Press

"60 Minutes"

USA TODAY

Are fees draining your 401(k) retirement savings?

Google Search: 401(k) fees too high **528,000 mentions**

Helping Participants Retire: Rob or Bob?

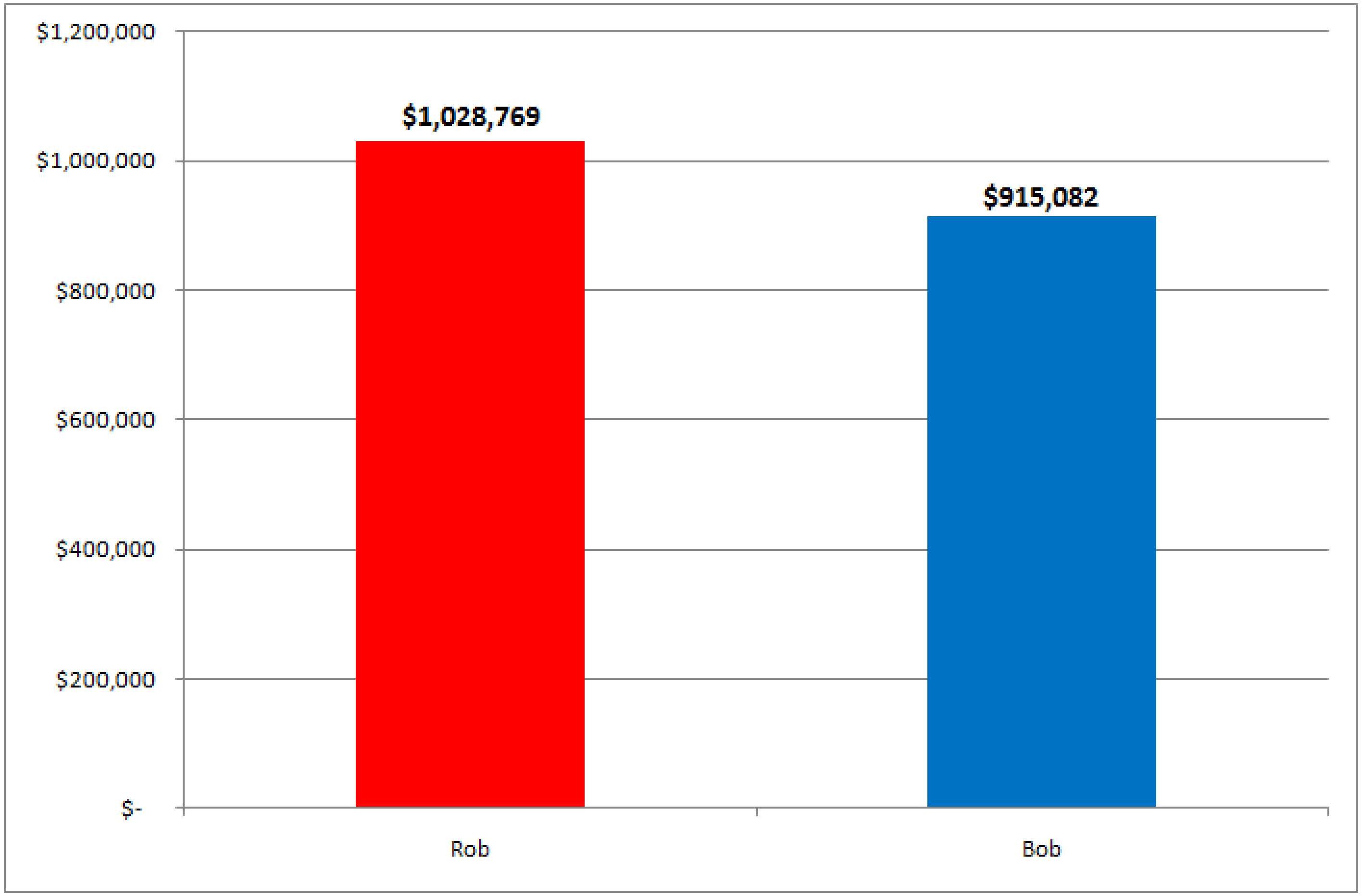
Rob and Bob both work in the software business:

- They are the same age: 25
- They both made 401(k) contributions for the same number of years: 40
- They both retire at the same age: 67
- They both contribute the same amount: $2,000 per year
- Each company has the same matching contribution: 50%
- They are both invested in the same fund earnings: 6.09%
  - Rob is invested in the institutional class at a .50% fee
  - Bob is invested in the retail class at a 1.00% fee

So, who will have more money at age 65?

Rob or Bob?

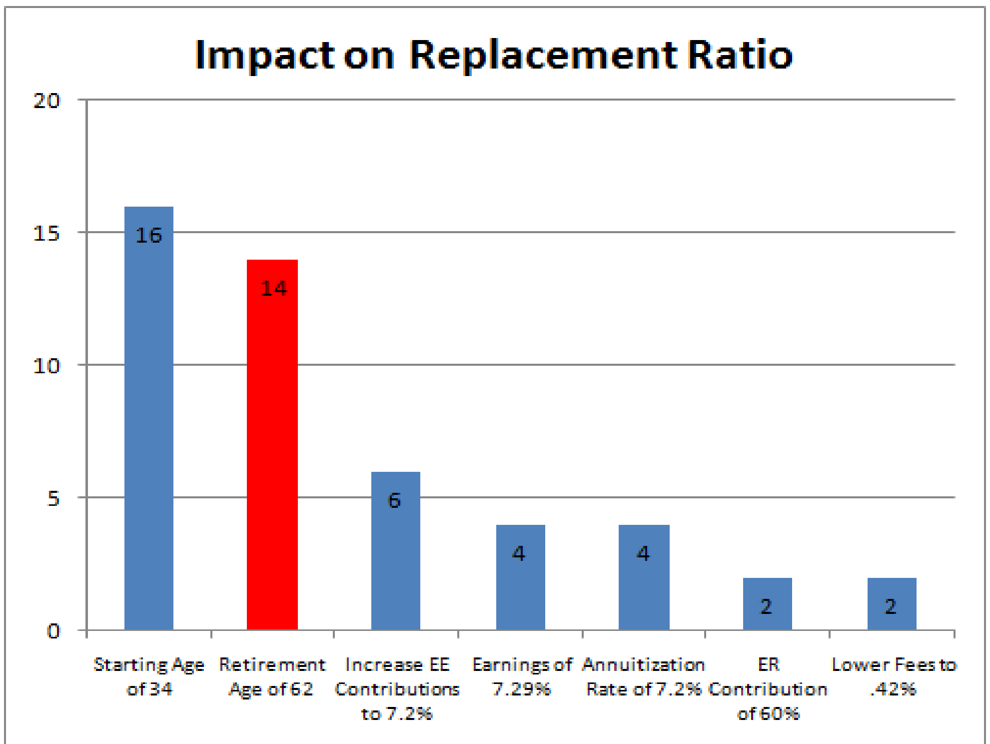
Helping Participants Retire: Rob or Bob?



Participant Success Measures: An Example

1. **Based on the assumptions shown on the right, a $40,000 employee that should replace 85% of their pre-retirement income will replace only 77% at retirement.**
2. **The sensitivity analysis below shows the impact on the 77% wage replacement number by changing each of the factors shown in yellow to the amounts shown in the chart below.**

Factor	Assumption
Inflation	3.09%
Age	42
Salary	40,000
Beginning Balance	-
EE Contribution	6.00%
ER Contribution	50.00%
Earnings	6.39%
Retirement Age	67
Annuitization Rate	6.00%
Fees	72 bps



Translating metrics into real value…

The chart below shows the annual impact on a SINGLE PARTICIPANT of changes in several participant success measures. The fact of the matter is that service providers can have a truly meaningful impact on the retirement lives of participants.

Participant Success Measure	Change Assumption by 20%	Baseline Dollars	Revised Dollars	Annual Equivalent in Dollars
- Participation Rate	Start age 34 instead of 42	$ 283,425	$ 555,245	$ 10,873
- Preserving Retirement Balance	Rolls over balance at age 38	$ 283,425	$ 400,464	$ 4,682
- Deferral Percentage	Increase from 6.0% to 7.2%	$ 283,425	$ 340,110	$ 2,267
- Percent exercising catch-up	Extra $1,000 per year @ 50	$ 283,425	$ 327,234	$ 1,752
- Maximizing Match	Increase to 60% Match	$ 283,425	$ 303,320	$ 796
- In automatically diversified options	Increase ROR by 50 bps	$ 283,425	$ 302,729	$ 772
- Having a Retirement Goal	Priceless			
- Achieving that Retiremetn Goal				

What is Winning?

Peter Drucker, 1909-2005

"What gets measured, gets managed…"

Firms measuring Retirement Readiness:

Fiduciary Benchmarks
Independent | Comprehensive | Informative

McKinsey&Company

nyhart

CENTER FOR
RETIREMENT
RESEARCH
AT BOSTON COLLEGE

MORNINGSTAR

PRC
PENSION RIGHTS CENTER

Deloitte.

EBRI
EMPLOYEE
BENEFIT
RESEARCH
INSTITUTE®

financial engines

What Predicts Winning?

- Having a Goal
- Being on Track to Achieve that Goal

What Predicts Winning?

- Participation Rates: Overall, HCEs and NHCEs
- Deferral Percentages: Overall, HCES and NHCEs
- Employees using Auto Escalate
- Employees Maximizing Company Match
- Employees using Catch Up

What Predicts Winning?

- Participants with an appropriate asset allocation
- Participants with a diversified portfolio
- Participants rebalancing those Portfolios

What Predicts Winning?

SPENDING

- Percentage of Participants NOT cashing out

Participant Success Measures:
Lag and Lead Metrics

KNOWING

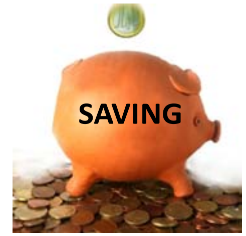
SAVING

INVESTING

SPENDING

What Predicts Winning? (A deeper look)

70% of workers have not calculated how much money they need for retirement.
EBRI 2010



25% to 30% of workers do not participate in their employer- sponsored defined contribution plan.
PSCA 2010

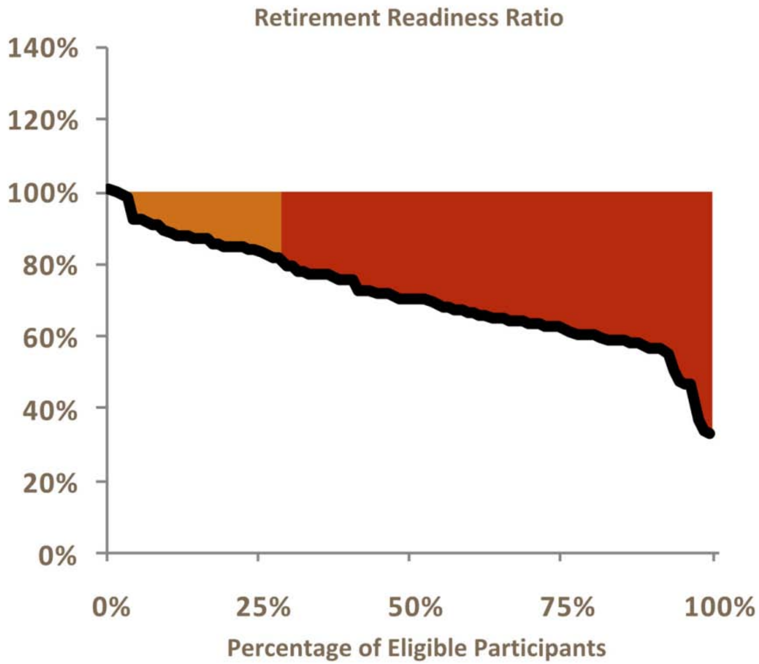
67% of participants polled assumed asset allocation investments offered some kind of retirement income guarantee.
Commonwealth 2009

85% of participants with balances less than $1,000 cash out their pre-retirement distributions and so do 40% with balances from $1,000 to $20,000.
Hewitt 2009

By almost any measure, it is clear that participants are not properly preparing for retirement, primarily for two reasons :

1. *Calculating Retirement Readiness is difficult for most participants.*
2. *Research has shown that participants will continue to procrastinate on issues that lie in the distant future even if taking action now with minimal sacrifice would dramatically improve their ability to retire securely.*

What Predicts Winning? (A deeper look)



	Current Plan	
Retirement Readiness Ratio Value Range	Number of Participants	Percentage of Participants
100% or Greater	1	1%
80% to 100%	28	28%
Less than 80%	71	71%
TOTALS:	100	100%

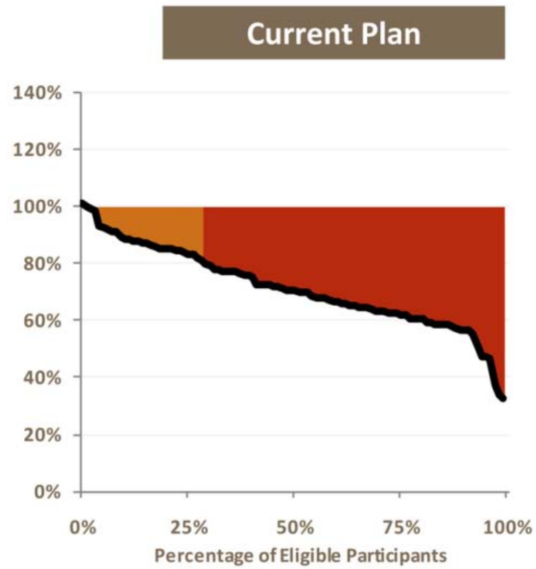
This is true despite:

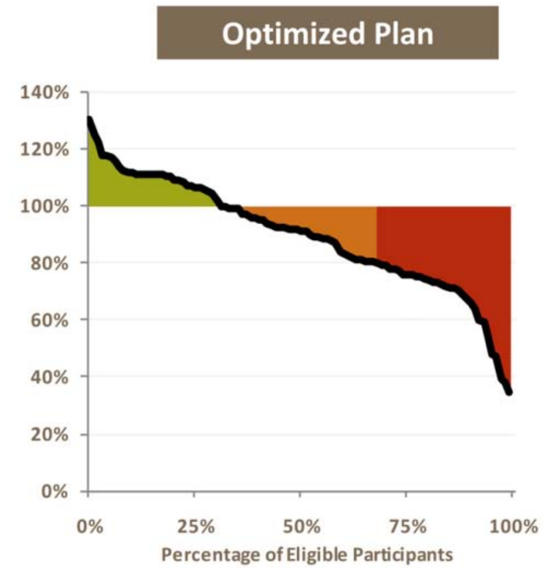
- Millions of participant phone calls
- Millions of dollars spent on brochures
- Thousands of participant meetings
- Numerous internet calculators

What Predicts Winning? (A deeper look)

Plan Design Feature	Current Plan	Optimized Plan
Increase Participant Deferrals		
Minimum Auto-Enrollment Participant Deferral	0.00%	4.00%
Annual Auto-Escalation Percentage	0.00%	1.75%
Maximum Automatic Participant Deferral	0.00%	11.00%
Catch Up Provision	No	Yes
Optimize Employer Contributions		
Employer Matching Contribution Percentage	25%	15%
Maximum Matched Participant Deferral	3.0%	20%
Basic Employer Contribution For All Participants	1.0%	3.0%
"Auto-Pilot" For Novice Investors		
Offer Qualified Default Investment Alternative(s)	Yes	Yes
Default All Eligible Participants into QDIA	No	Yes
Support Services for Intermediate Investors		
Offer Diversified Core Lineup	Yes	Yes
Offer Automatic Rebalancing	No	Yes
Offer Professional Advice	No	Yes
Maximum Choice For Advanced Investors		
Offer Brokerage account or Fund Window	No	Yes

What Predicts Winning? (A deeper look)





	Number of Participants	Percentage of Participants	Number of Participants	Percentage of Participants
	1	1%	31	31%
	28	28%	37	37%
	71	71%	32	32%
Totals:	100	100%	100	100%

Managing the Lead Metrics

Participant Success Measures	% Plans Measuring	This Plan
Plan's Current Participation Rate	100%	81%
Average Deferral Percentage for Non-Highly Compensated Employees	100%	6.7%
Average Deferral Percentage for Highly Compensated Employees	100%	8.7%
% of Participants Maximizing Company Match	100%	52%
% of Plan Assets in Automatically Diversified Options*	98%	36%
% of Eligible Participants Making Catch-up Contributions	100%	14%
% of Participants Using Auto-Rebalance Option	8%	5%
% of Terminated Participants NOT "Cashing Out"	100%	50%
% of Participants with a Personal Retirement Goal	6%	N/A
% of Participants On Track to Achieve That Goal	6%	N/A

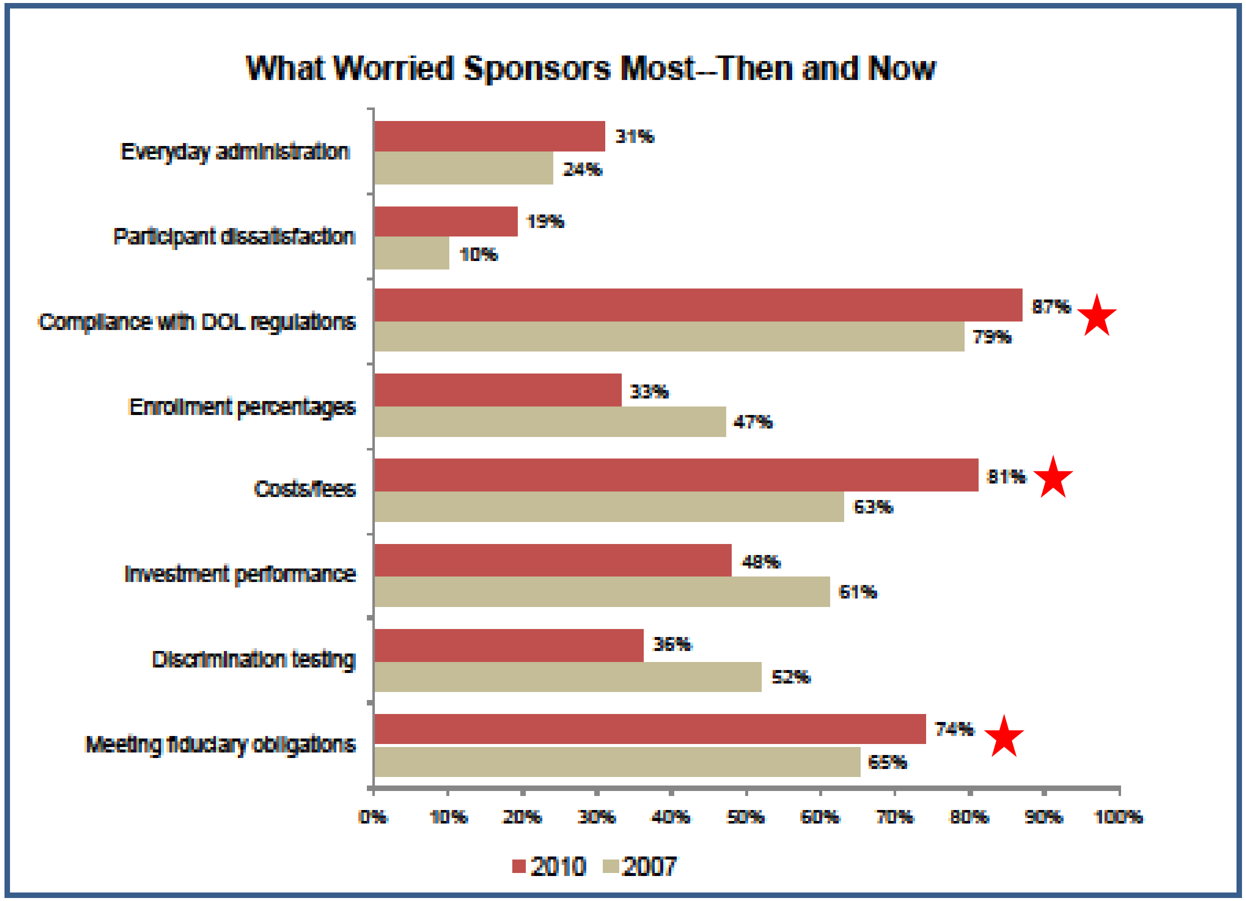
Two Client Constituencies

PLAN SPONSORS

PARTICIPANTS

What worries Plan Sponsors

PLAN SPONSORS



The Briskin Study of Small Retirement Plan Sponsors, 2010

Representative Quotes

PLAN SPONSORS

- "Whenever there's a change in the law…[my provider] sends me an email about it that looks like it was written by lawyers."
- "I keep on asking our broker how much we're paying in investment fees and how much commission he's getting and I never get a straight answer."
- "All my advisor wants to talk about is fund performance. I can get that online. What I really need is information that can tell us if we're making the right decisions."
- "I've become so used to phone reps not knowing [anything] that the minute they pick up I tell them to let me talk to someone who does."
- "After researching on the Internet, I asked our investment advisor to be our ERISA Fiduciary. I'm still waiting for her answer two months later."

The Briskin Study of Small Retirement Plan Sponsors, 2010

Why Sponsors Change Providers

PLAN SPONSORS

Top Reasons for Switching Providers:

1. Poor Client Service
2. Substandard Participant Education Services
3. Poor Fiduciary/Regulatory guidance/Support
4. Lack of Fee Transparency
5. Investment Performance Issues
6. Plan Costs Too Expensive

The Briskin Study of Small Retirement Plan Sponsors, 2010

How Sponsors View Retirement Readiness

PLAN SPONSORS

Key points from the 2010 Deloitte 401(k) Survey:

- 62% of plan sponsors feel "that our responsibility includes taking an interest in whether our employees are tracking towards a comfortable retirement"
- Only 15% of surveyed employers believe most employees will be prepared for retirement.
- Employers ranked "improve participant readiness for retirement" as one of the most important changes their providers could make

Deloitte 2010 Survey

Why Sponsors Change Service Providers

PLAN SPONSORS

Exhibit 10.5. If you have made a change in provider in the last two years, please list the reason for the change (check all that apply):

	2009	2010
A better solution	46%	56%
Poor service	30%	40%
Fees	40%	38%
A change in your organizational structure	16%	20%
Other	30%	16%
Provider consolidation	20%	13%
		n=465

Deloitte 2010 Survey

What are Service Providers measuring?

PLAN SPONSORS

Exhibit 10.2. Which service levels are being measured? (Check all that apply)

	2009	2010
Accuracy	79%	81%
Call center statistics	82%	79%
Statement and report turnaround time	77%	77%
Loan, distribution, and withdrawal check processing time	63%	69%
Participation rate	35%	39%
Fund diversification at the participant level	29%	28%

n=192

Deloitte 2010 Survey

What is Winning?

- Are the trains going to run on time?
  - Monitor Service Provider
  - Generate & Evaluate Service Provider RFI
  - Generate & Evaluate Service Provider RFP
  - Support Contract Negotiation
  - Support Service Provider Transition

What is Winning?

- Am I protected?
  - Assess Plan's Investment Objectives
  - Design Overall Structure
  - Review QDIA Option
  - Review Company Stock Option
  - Develop, Maintain & Monitor IPS
  - Implement Investment Structure
  - Provide & Review Performance Reporting
  - Search for New Investment Manager
  - Review Plan Governance Structure
  - Review 404(c) protection
  - Meet with Plan Committee
  - Confirm Fiduciary Status

What is Winning?

- Am I getting a fair deal?
  - Ensure all fees are disclosed
  - Benchmark fees AND value for reasonableness
  - Review use of ERISA Spending Accounts

What is Winning?

- Am I helping my employees prepare for retirement?
  - Review of Education Strategy
  - Provide Group Meetings
  - Provide One-on-One Meetings
  - Provide participant phone/email support
  - Provide Financial Planning Services
  - Provide Participant Newsletter
  - Review Progress against Goals
  - Rending of Participant Advice
  - Build Model Portfolios

What is Winning?

- Are the trains going to run on time?

- Am I protected?

- Am I getting a fair deal?

- Am I helping my employees prepare for retirement?

A tough time to be a Plan Sponsor

Shrinking Budgets

Demanding Employees

Why It's Time to Retire the 401(k)

CATERPILLAR®

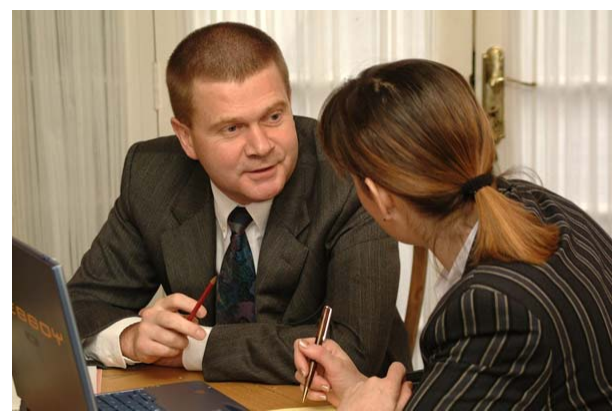
$16 million Settlement paid to 401(k) participants

The Value Standards for our Industry

PLAN SPONSORS

Help them manage the various risks they have as a plan fiduciary

OR



The Value Standards for our Industry

PARTICIPANTS

Prove that you can help them achieve Retirement Readiness

KNOWING

SAVING

INVESTING

SPENDING

Value Standards strengthen an industry

- Did Consumer Reports (founded in 1936) hurt Sony?

- Did edmunds.com (founded in 1966) hurt BMW?

> *"A big change in the next decade will involve the shift from closed to open communication, says Bob Johansen of Palo Alto, Calif.-based think tank Institute for the Future, which each year makes 10-year forecasts of trends. "Leaders have the choice of riding that wave or bucking it," he said.*
>
> Yahoo Finance April 20, 2009

The driver of Value Standards for our industry

- **Transparency**
  - **Disclosure**
    - **Reasonableness**
      - **Value**

OR

Fiduciary Benchmarks

Independent | Comprehensive | Informative

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