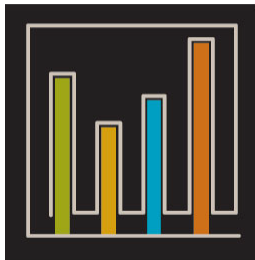
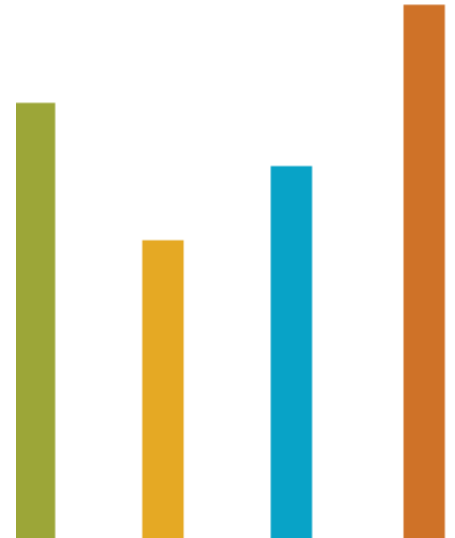


Benchmarking 2.0: Lessons Learned and WIIFY



Fiduciary Benchmarks
Independent | Comprehensive | Informative

Tom Kmak, CEO
Fiduciary Benchmarks



Agenda



- 1. Benchmarking Basics & Lessons Learned**
- 2. Benchmarking and WIIFY**

What are the duties of a Fiduciary?



- Fiduciaries have important responsibilities and are subject to standards of conduct because they act on behalf of participants in a retirement plan and their beneficiaries. These responsibilities include:
 - Acting solely in the interest of plan participants and their beneficiaries and with the exclusive purpose of providing benefits to them;
 - Carrying out their duties prudently;
 - Following the plan documents (unless inconsistent with ERISA);
 - Diversifying plan investments; and
 - ***Paying only reasonable plan expenses.***

Source: www.dol.gov/ebsa/publications/fiduciaryresponsibility.html

408(b)(2) regulation: Actual Regulation – What



DEPARTMENT OF LABOR

Employee Benefits Security Administration

29 CFR Part 2590

RIN 1210-AB08

Reasonable Contract or Arrangement Under Section 408(b)(2) – Fee Disclosure

AGENCY: Employee Benefits Security Administration, Labor.

ACTION: Final rule.

SUMMARY: This document contains a final regulation under the Employee Retirement Income Security Act of 1974 (ERISA or the Act) requiring that certain service providers to pension plans disclose information about the service providers' compensation and potential conflicts of interest. These disclosure requirements are established as part of a statutory exemption from ERISA's prohibited transaction provisions. This regulation will affect pension plan sponsors and fiduciaries and certain service providers to such plans.

EFFECTIVE DATE: The final rule is effective on July 1, 2012.

- **Services** - No specific services requested to be disclosed
- **Status** - as Fiduciary or RIA required to be disclosed
- **Compensation**
 - Compensation (Direct AND Indirect)
 - Compensation between related parties
 - Compensation for Terminating the Agreement
 - “Unbundling” of Recordkeeping Compensation
- For each investment option, certain information also required by **404(a)(5) for participant disclosures**
 - name of each alternative
 - type of investment
 - performance data
 - benchmarks
 - fee and expense information
- How the **Compensation will be received**
- **Guide** for finding this information (reserved)

408(b)(2) regulation: Actual Regulation – Why



DEPARTMENT OF LABOR

Employee Benefits Security Administration

29 CFR Part 2590

RIN 1218-AB08

Reasonable Contract or Arrangement Under Section 408(b)(2) – Fee Disclosure

AGENCY: Employee Benefits Security Administration, Labor.

ACTION: Final rule.

SUMMARY: This document contains a final regulation under the Employee Retirement Income Security Act of 1974 (ERISA or the Act) requiring that certain service providers to pension plans disclose information about the service providers' compensation and potential conflicts of interest. These disclosure requirements are established as part of a statutory exemption from ERISA's prohibited transaction provisions. This regulation will affect pension plan sponsors and fiduciaries and certain service providers to such plans.

EFFECTIVE DATE: The final rule is effective on July 1, 2012.

- The Department believes that plan fiduciaries need this information, when selecting and monitoring service providers, ***to satisfy their fiduciary obligations under ERISA section 404(a)(1)*** to act prudently and solely in the interest of the plan's participants and beneficiaries and for the exclusive purpose of providing benefits and ***defraying reasonable expenses*** of administering the plan.

Number of times “Reasonableness” or “Reasonable” is mentioned in the regulation:

49

Partnering for ***"The Right Way to Benchmark"***



**"It is what you learn after you
know it all that counts"**



"I'm all ears..."

Advisor Survey



- **The most important issues are:**
 - **Satisfying the Fiduciary Obligation**
 - **Being independent**
 - **Taking a comprehensive approach to fees AND value**
- **Not so important issues are:**
 - **Cost-Effective**
 - **Name Recognition**
- **Nearly 50% of advisors benchmark at least 75% of their client base**
- **Clients not being benchmarked are primarily due to:**
 - **Size**
 - **Client does not care to be benchmarked**
- **Given all of the disclosure, the demand for benchmarking is definitely going to increase**

The ***RIGHT*** Way to Benchmark



1. Use Data that has Integrity:

- Right Source
- Accurate
- Timely
- Comprehensive



2. Employ a Method that is Fair and Independent:

- Build an *“Apples to Apples”* Comparison Group
- Collect and Normalize ALL Fees
- Examine Value for Participants, Sponsors & Providers

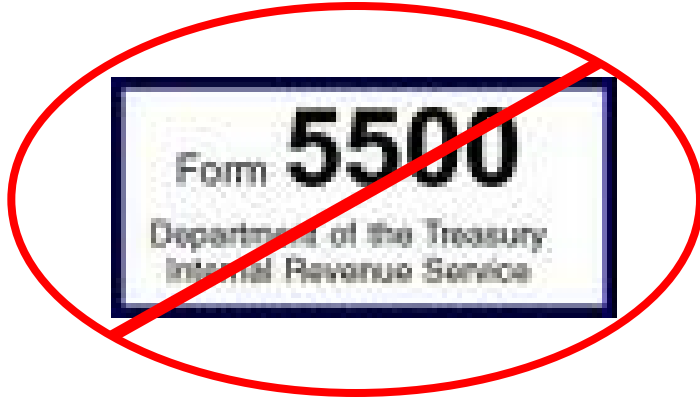


3. Provide Output that is Simple, Transparent & Practical:

- Concise
- Actionable
- Timely
- Procedurally Prudent



The Data: What NOT to use



A November 2009 study from the GAO states the 5500:
“may not be helpful to plan sponsors or others”

5500 data was not designed for benchmarking:

- FBI has seen many instances where providers using the 5500 to calculate fees have been off by 85 to 285 basis points
 - Insurance Company General Accounts
 - Schedule C Administrative Fees
 - ERISA Spending Accounts
- FBI tested 1000 cases of participation rates from 5500 data and 52% were off by 10% or more
- No logical conclusions could be reached on relative Salary Deferrals or Employer Contributions due to lack of compensation data
- The 5500 contains NO service, support or success measure information which is critical to assessing fee reasonableness
- The 5500 does not recognize items that drive costs for service providers

Why 5500 Data is unusable for Benchmarking Salary Deferrals



e. Salary Deferrals

To compute average salary deferrals BrightScope uses the most recent salary deferral data from the Form 5500 filing. BrightScope divides the salary deferrals by the number of participating employees to get a cleaner picture of how the average participating employee is deferring in to the plan.

Question:

Plan A Average Salary Deferral = \$2,500

Plan B Average Salary Deferral = \$2,273

Which plan actually has better Salary Deferrals?

1. Plan A
2. Plan B
3. I Don't Know

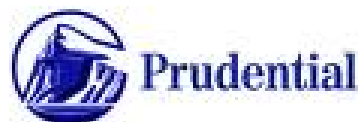
		Company A	Company B
Schedule H Employee Contributions for the year	(A)	\$ 5,000,000	\$ 5,000,000
Calculated Active Participants from Form 5500	(B)	2,000	2,200
Average Salary Deferral	(A)/(B)	\$ 2,500	\$ 2,273
Average Contribution as a Percentage of Pay		\$ 60,000	\$ 50,000
		4.17%	4.55%

This technique of normalization is critical for accurate comparisons and this is why the 401(k) discrimination test is performed as a percentage of compensation.

The Data: What to Use



- 100% of data should come directly from the source: Service Providers



- All data will thus be current, accurate and consistent with 408(b)(2) disclosures.

The ***RIGHT*** Way to Benchmark



1. Use Data that has Integrity:

- Right Source
- Accurate
- Timely
- Comprehensive



2. Employ a Method that is Fair and Independent:

- Build an *“Apples to Apples”* Comparison Group
- Collect and Normalize ALL Fees
- Examine Value for Participants, Sponsors & Providers



3. Provide Output that is Simple, Transparent & Practical:

- Concise
- Actionable
- Timely
- Procedurally Prudent



The Method



1. Build an ***“Apples-to-Apples”*** Comparison Group



2. Collect and Normalize ***ALL Fees***



3. Determine the ***“Value Add” by Provider***



Benchmark Group Construction: Current



<u>Sort Factor</u>	<u>Initial Thinking</u>	<u>Retain/Rationale</u>
Plan Assets	Assets drive 90% of revenues	Yes
Participants	Participants drive expenses	Yes
Last Year Reviewed	Recent Bid data is important	Yes
Industry	Benefits greatly vary by industry	Yes – BUT FOR VALUE ONLY
Plan Type	403(b) & 457 different than 401(k)	No - plan lines are blurring
Auto-Enrollment	Changed cost and success measures	No – minimal cost impact
Employer Match	Changed cost and success measures	No – minimal cost impact
Passive/Active Split	Structural driver of costs	Yes
Managed Accounts	Structure driver of costs	No – explained via attribution

Benchmark Group Construction: New



Sort Factor

Rationale

Retain/Rationale

Service Model	Similar service models is default, ALL model option being considered
Average Balance	Already being used but will now be presented formally

Benchmark Group Construction: New



Benchmark Group Characteristics for the

<u>Total Plans</u>	<u>401(k)</u> ✓	<u>403(b)</u>	<u>Other</u>
31	31	0	0

This Plan ✓

<u>Plans by Model</u>	<u>Bank</u>	<u>Insurance Co</u>	<u>Mutual Fund</u> ✓	<u>TPA</u>	<u>Other</u>
5 models	1	16	6	6	2

<u>RKs by Model</u>	<u>Bank</u>	<u>Insurance Co</u>	<u>Mutual Fund</u> ✓	<u>TPA</u>	<u>Other</u>
21 recordkeepers	1	10	3	5	2



Fiduciary
Benchmarks

	Assets	Participants	Avg Acct Bal
✓ Plan	\$ 32,872,294	1,268	\$ 25,925
Smallest	\$ 25,399,499	770	\$ 20,616
Largest	\$ 39,287,114	1,553	\$ 36,810
Average	\$ 31,531,473	1,117	\$ 28,895
5th percentile	\$ 26,089,476	797	\$ 21,404
25th percentile	\$ 27,069,625	960	\$ 25,676
50th percentile	\$ 30,946,499	1,105	\$ 28,528
75th percentile	\$ 35,391,929	1,271	\$ 33,298
95th percentile	\$ 38,806,130	1,434	\$ 35,992

The Method



1. Build an ***“Apples-to-Apples”*** Comparison Group



2. Collect and Normalize ***ALL Fees***



3. Determine the ***“Value Add” by Provider***



Fees: Gather ALL Fees Being Paid



Source of Fees:

What

- Direct Compensation
- Indirect Compensation
- Fees on top of Total Expense Ratio
- Fees that are in addition to investment costs

How

- Flat fee, basis point, per participant
- ERISA Spending Account Credits



Plan Assets



Participants



Plan Sponsor

Recipient of Fees:

• Recordkeeper

• TPA

• Advisor /
Consultant

• Money
Managers

The focus should be on understanding each building block of plan fees that vets all sources of fees and then allocating those fees among the various service providers for the plan

In order to provide Actionable Intelligence for Fiduciaries that is reliable, the data should be normalized and examined at multiple levels. THIS WILL INCLUDE ATTRIBUTION ANALYSIS that explains fee differences due to:

- ***Asset Allocation***
- ***Managed Accounts***

Fees: By Investment Option



					Reasonableness of Total Expense of Benchmark Group in percent					
Fund Name	Asset Category for This Fund	Benchmark Plans Using This Asset Category	The Plan's Assets as of 6/30/08	Total Expense Ratio	Low	Below Average	Average	Above Average	High	Difference from Average
Core Options										
PIMCO Stable Value	Stable Value	89%	\$ 6,000,000	0.30%	0.12%	0.17%	0.22%	0.26%	0.32%	0.08%

HOW DO THE TOTAL EXPENSE RATIOS FOR THE FUNDS COMPARE to the Benchmark Group?

- 9 funds are well below average in expense
- 2 funds are below average in expense
- 4 funds are above average in expense
- 6 funds are well above average expense

Fund Name	Asset Category for This Fund	Benchmark Plans Using This Asset Category	The Plan's Assets as of 6/30/08	Total Expense Ratio	Low	Below Average	Average	Above Average	High	Difference from Average
PIMCO Stable Value	Stable Value	89%	\$ 600,000	0.30%	0.12%	0.17%	0.22%	0.26%	0.32%	0.08%

The Total Expense Ratio page will be changed to show the 25th, 50th and 75th percentile observations for two different Fee methods:

- Where Revenue Sharing is being used to offset recordkeeper, advisor and TPA expenses
- Where NO Revenue sharing is being used

Fees - By Investment Option, by Provider



			This Plan				Benchmark Group						Percentage of Plans Paying Fee to Advisor / Consultant
			Disclosure of Advisor/Consultant Fee in percent				Reasonableness of Advisor/Consultant Fee in percent (when it is being paid)						
Investment Program Category	Fund Name	Assets as of 6/30/08	Fees from Investments	Wrap Fee	Total Fee for Advisor/Consultant	Other Payments*	Low	Below Average	Average	Above Average	High	Difference from Average	
Core	PIMCO Stable Value	\$ 6,000,000	0.00%	0.03%	0.03%		0.02%	0.04%	0.06%	0.08%	0.10%	-0.03%	12%

Fees from Investments	Wrap Fee	Total Fee for Advisor/Consultant	Other Payments*	Low	Below Average	Average	Above Average	High	Difference from Average
0.00%	0.03%	0.03%		0.02%	0.04%	0.06%	0.08%	0.10%	-0.03%

Fees - Other Issues



- Participant Paid Fees
- Managed Accounts
- Self Directed Brokerage

These fees are transaction based and are driven by participants. Therefore, the key issue is to benchmark the transaction cost thereby normalizing the data. Otherwise, you could wind up with conclusions that are quite incorrect.

The Method



1. Build an ***“Apples-to-Apples”*** Comparison Group



2. Collect and Normalize ***ALL Fees***



3. Determine the ***“Value Add” by Provider***



Value Add: Overall Philosophy



Plan Sponsor

- Should reflect those services that help a Plan Sponsors fulfill their ***Fiduciary Duty*** as well as provide information on ***Best Practices***



Participants

- Should measure those ***Participant Success Measures*** that have a proven impact on increasing Retirement Readiness



Service Providers

- Should measure those services that have a meaningful impact on the ***Cost of Servicing*** the plan



Data Patterns – Advisor Value

Plan Universe – Random Sample

- 150 Advisor Supported Plans
- Asset Range: \$500k - \$20mm
- Participant Count: 8 – 1678
- Avg Acct Bal: \$4,508 - \$270,895
- Sponsor/Participant Satisfaction

Question:

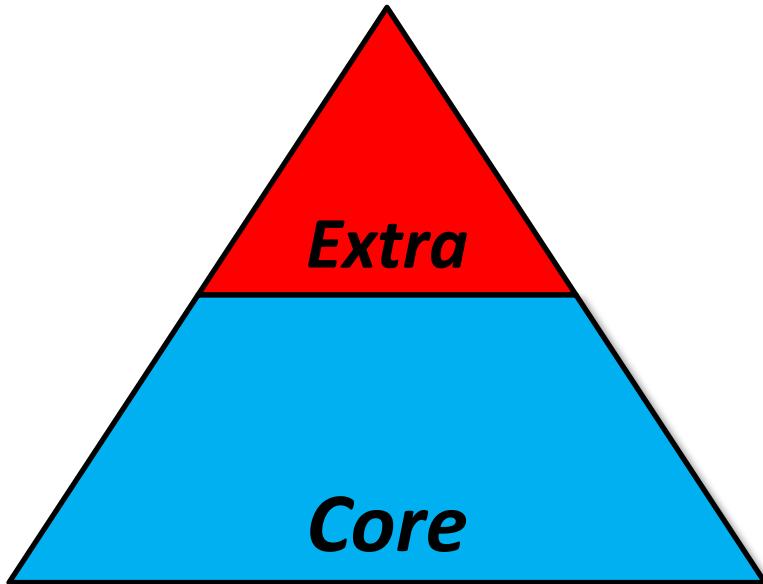
What percentage of Advisors are 3(21)?:

- 1. 90%**
- 2. 70%**
- 3. 50%**
- 4. 30%**
- 5. 10%**

Fiduciary Status	%
None Acknowledged	34%
RIA	30%
3(21)	31%
3(38)	5%

The problem is: How much is the 3(38) fiduciary worth versus the 3(21) fiduciary?

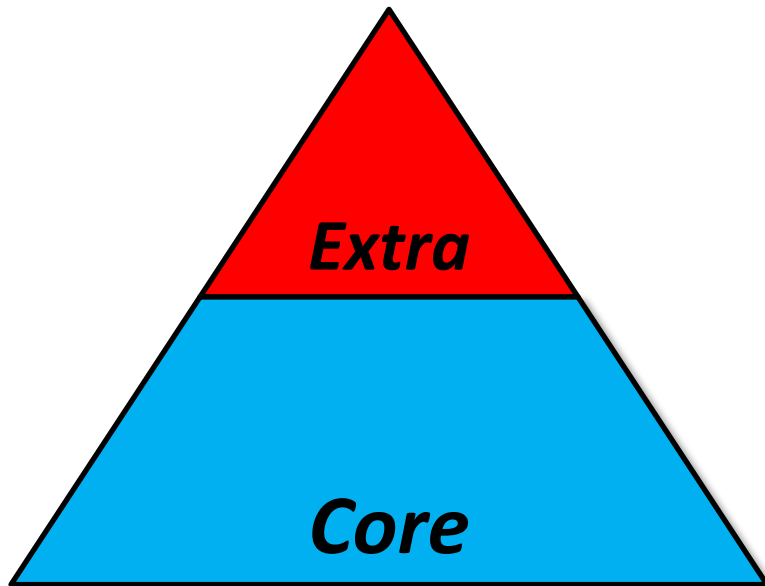
Advisor Value: Core Services



Core Services:

- Analyze Plan Design Options
- Meet with Plan Committee
- Assess Plan's Investment Objectives
- Design Overall Investment Structure
- Develop, Maintain & Monitor IPS
- Provide & Review Performance Reporting
- Search for New Investment Managers
- Monitor Service Provider
- Ensure all Fees are Disclosed
- Benchmark Fees & Value for Reasonableness
- Review of Education Strategy
- Provide Group Meetings

Advisor Value: Extra Services



Extra Services:

- *Implement Investment Structure**
- *Review QDIA Option**
- *Review Company Stock Option**
- *Review 404(c) Option**
- Review Plan Governance Structure
- Build Model Portfolios
- Review use of ERISA Spending Accounts
- Generate & Evaluate Service Provider RFP/RFI
- Support Contract Negotiation
- Support Service Provider Transition
- Fiduciary Status 3(21), 3(38), 3(16)
- Provide one-on-one meetings
- Provide Participant Education

** One-time Services*

Advisor Extra Services: Your Cost



"Extra Service"	Fee	Hours Spent	Value
■ Review Plan Governance Structure	\$200/hr	8	\$ 1,600
■ Build Model Portfolios	8 bps		\$ 8,000
■ Review use of ERISA Spending Accounts	\$200/hr	4	\$ 800
■ Generate & Evaluate Service Provider RFP/RFI	\$200/hr	32	\$ 6,400
■ Support Contract Negotiation	\$200/hr	8	\$ 1,600
■ Support Service Provider Transition	\$200/hr	4	\$ 800
■ Fiduciary Status 3(38)	5 bps		\$ 5,000
■ Provide one-on-one meetings	\$100/hr	32	\$ 3,200
■ Provide Participant Education	\$100/hr	28	\$ 2,800
			<u>\$ 30,200</u>

Level 2 – Additional Services provided and associated cost of \$30,200

Advisor Extra Services: Your Cost versus Market Rates



"Extra Service"	Market Based Proxy	Fee	Hours Spent	Value
■ Review Plan Governance Structure	ERISA Attorney	\$500/hr	8	\$ 4,000
■ Build Model Portfolios	Asset Allocation Overlay Fee	10 bps		\$ 10,000
■ Review use of ERISA Spending Accounts	ERISA Attorney	\$500/hr	4	\$ 2,000
■ Generate & Evaluate Service Provider RFP/RFI	Benefits Consultant	\$300/hr	32	\$ 9,600
■ Support Contract Negotiation	ERISA Attorney	\$500/hr	8	\$ 4,000
■ Support Service Provider Transition	Benefits Consultant	\$300/hr	4	\$ 1,200
■ Fiduciary Status 3(38)	Mesirow Charge	6 bps		\$ 6,000
■ Provide one-on-one meetings	Education Consultant	\$100/hr	32	\$ 3,200
■ Provide Participant Education	Education Consultant	\$100/hr	28	\$ 2,800
				<u>\$ 42,800</u>

Level 3 – Additional Services compared to the market - \$42,800 in this example

What is Winning?

What Predicts Winning?



- **Success Measures** that have a proven impact on increasing Retirement Readiness



- Participation Rate: Overall, **HCE and NHCE**
- Deferral Rate: **Overall**, HCE and NHCE
- Percent Maximizing Company Match
- **Percent on an Auto-Escalate Program**
- Percent utilizing Catch-up
- Percent of Assets in Auto-Diversified Options
- Percent utilizing Auto-Rebalance
- Percent NOT “cashing-out”
- Having a personal Retirement Goal
- On track to Achieve that Goal

“The” Metric for our Industry: Retirement Readiness



- Based on the assumptions shown below, a \$40,000 employee that should replace 82% of their pre-retirement income will replace only 72% at retirement for a Retirement Readiness Ratio (R³) of 87%.

Factor	Assumption
Gender	Female
Age	42
Salary	\$ 40,000
Wage Inflation	3.00%
Beginning Balance	\$ -
EE Contribution	6.00%
ER Matching Percentage	50.00%
ER Maximum Match	6.00%
ER Match Ceiling	No
ER Match Ceiling Amount	-
ER Basic Percentage	0.00%
Pre-Retirement ROR	7.11%
Fees	0.72%
Retirement Age	67
Annuitization Rate of Return	6.00%

	Dollars	Percent
Final Monthly Pay	\$ 6,776	100%
Monthly Amount Needed to Retire "well" (A)	\$ 5,556	82%
Social Security Benefit	\$ 3,490	52%
Final Account Balance as a Monthly Annuity	\$ 1,370	20%
Total Retirement Income (B)	\$ 4,860	72%
Retirement Readiness (B)/(A)		87%

Question:

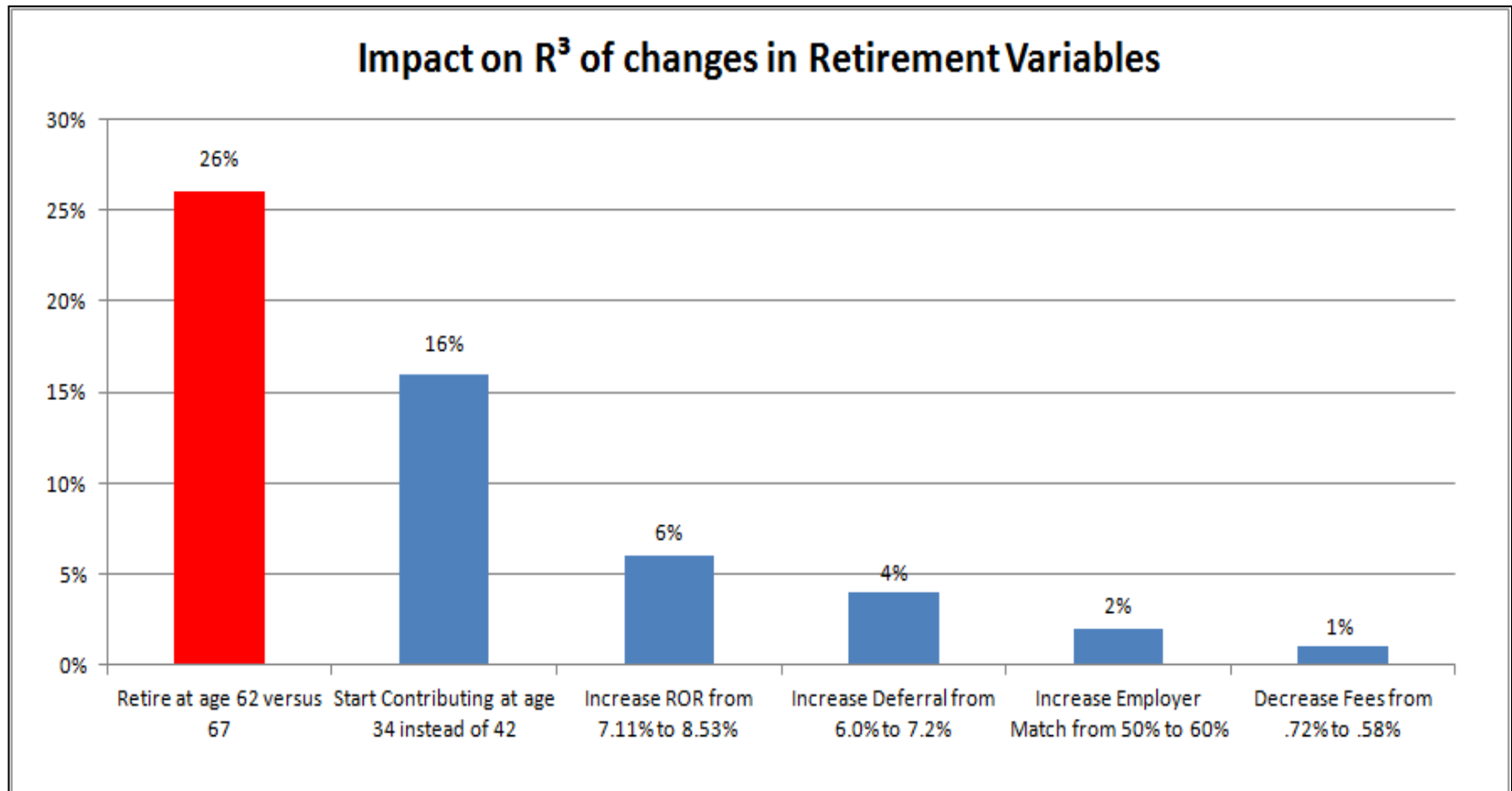
Which of these variables changed by 20% will have the GREATEST IMPACT on Retirement Readiness:

1. Retiring 5 years early at age 62
2. Contributing 8 years earlier at age 34
3. Increasing the 7.11% ROR by 20%
4. Increasing the 6.00% Deferral by 20%
5. Increasing the 50 cent match by 20%
6. Decreasing the 72bp fee by 20%

The Importance of Value



- The sensitivity analysis below shows the impact on the Retirement Readiness Ratio of 87% by changing 6 important retirement assumptions by 20% (except for Early Retirement where the reduction is the earliest age one can begin receiving Social Security):

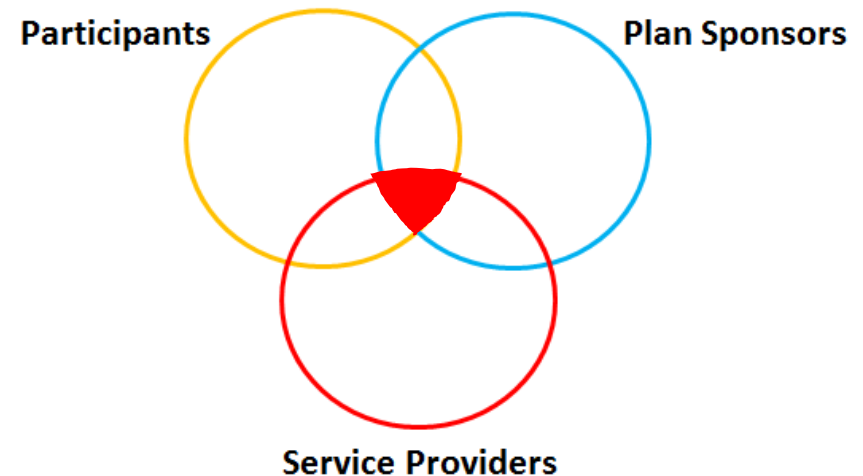


Creating Win-Win-Win Solutions



Assumption Change of 20%	Baseline Dollars	Revised Dollars	Absolute Difference	Annual Equivalent in Dollars	Equivalent in Replacement Ratio
Retire at age 62 versus 67	\$ 286,111.00	\$ 180,321	\$ (105,790)	\$ (4,232)	-26%
Start Contributing at age 34 instead of 42	\$ 286,111.00	\$ 555,566	\$ 269,455	\$ 10,778	16%
Increase ROR from 7.11% to 8.53%	\$ 286,111.00	\$ 346,917	\$ 60,806	\$ 2,432	6%
Increase Deferral from 6.0% to 7.2%	\$ 286,111.00	\$ 324,259	\$ 38,148	\$ 1,526	4%
Increase Employer Match from 50% to 60%	\$ 286,111.00	\$ 305,185	\$ 19,074	\$ 763	2%
Decrease Fees from .72% to .58%	\$ 286,111.00	\$ 291,509	\$ 5,398	\$ 216	1%

- If a service provider can demonstrate that their communications and education program actually results in deferral rates that are 1.20% higher than average, that will be worth \$38,148 to just that one participant
- This is an example of how the proper use of benchmarking can result in a Win-Win-Win for all parties



Plan Design Optimization

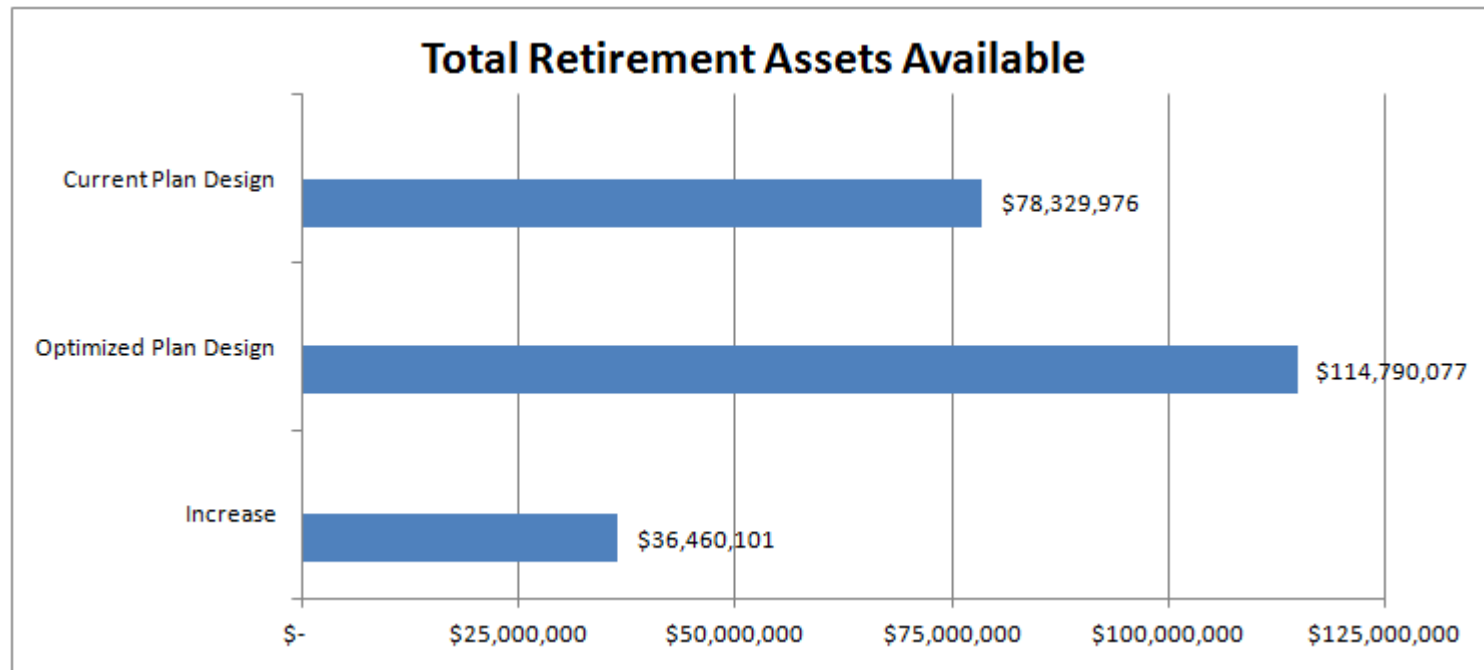
Case Study: 206 participants



	Before PDOR	Rating	After PDOR	Rating
Plan's Current Participation Rate	79%	Above Average	100%	High
Plan's Deferral Percent	4.5%	Above Average	9.7%	Above Average
% of Participants on an Auto Escalation Program	N/A	?	85%	High
% of Participants Maximizing Company Match	?	?	100%	High
% of Participants with the correct Broad Asset Allocation	37%	?	100%	High
% of Participants with a Diversified Portfolio	18%	?	100%	High
% of Participants using Auto-Rebalance Option	30%	?	100%	High
% of Assets in Automatically Diversified Options	90%	High	100%	High
% of Participants with a Personal Retirement Goal	0%	?	100%	High
% of Participants on Track to Achieve that Goal	14%	?	39%	High

Plan Design Optimization

Case Study: 206 participants



Optimized Plan Design (per participant)	\$ 557,233
Current Plan Design (per participant)	\$ 380,243
Increase (per participant)	\$ 176,991

Drivers of Costs for Recordkeepers & TPAs



- ***Plan Complexity***

- Plan Driven Services

- Participant Administrative Services

- Participant Communication Services

- Timeliness Standards



The ***RIGHT*** Way to Benchmark



1. Use Data that has Integrity:

- Right Source
- Accurate
- Timely
- Comprehensive



2. Employ a Method that is Fair and Independent:

- Build an *“Apples to Apples”* Comparison Group
- Collect and Normalize ALL Fees
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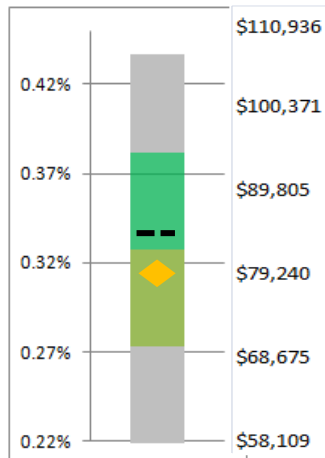


Fees & Value by Service Provider: Recordkeeper

Fees

Disclosure of Recordkeeper Fees	Your Fees in Dollars	Your Fee in Basis Points*
Fees from Investments	\$ 76,740	31
Other Fees	\$ 2,500	0
Grand Total	\$ 79,240	31

Benchmarking of Recordkeeper Fees



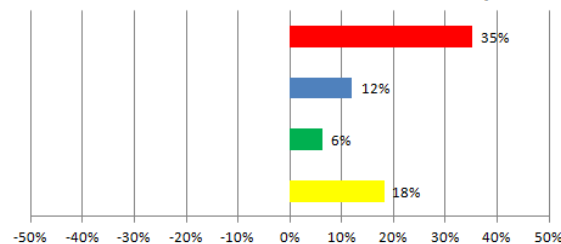
Compared to the Benchmark Group:

- your fees are 2 basis point less per year
- this is equal to \$10,972 less per year
- this is \$11 less per participant per year

Per the DOL, the prudent fiduciary does not merely look for low fees. Instead, the prudent fiduciary determines fee reasonableness by looking at not only the fee being paid, but also by examining the quantity & quality of the services received by the plan and their participants. The two sections below provide important data on those value components.

Quantity of Services

Percent Under/Over Benchmark Group



Plan Complexity	V-3
Plan Driven Administration	V-4
Participant Driven Administration	V-5
Timeliness Standards	V-6

Appendix Page

Quality of Services

The Quality of Services is also important. Unfortunately, these are harder to measure on an apples to apples basis. Ultimately, however, plan sponsors want experts that have the aptitude and attitude to service their plan and their participants.

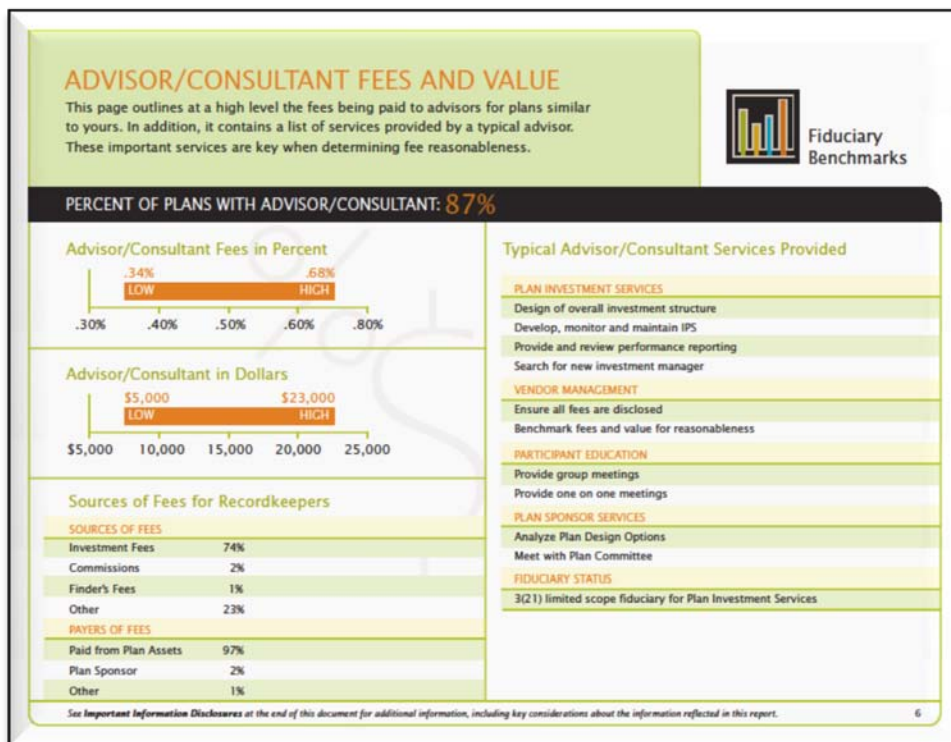
Aptitude:

- Years in the industry
- Number of plans similar to yours
- Financial Strength
- Plans per Relationship Manager
- Client Retention Rate
- Quality of Reports/Services/Website
- Foreign Language services

Attitude:

- Desire to work with you
- "Fit" with your company/industry
- Local Service (if so desired)
- Quality of Staff/Staff Turnover
- Speed of response to inquiries
- Client Satisfaction Scores (if any)

Presenting the Best Information Different Solution for the Micro Market



- Left –hand side has fees for the advisor in Percent and Dollars along with a breakdown of the source of those fees and how fees are paid in the marketplace
- Right-hand side is a flexible page that can contain whichever services you wish to emphasize to the prospect from the list of services developed by FBi for our Benchmarking service



A Prospecting Tool with consistent quality

12 Factors to Consider When Assessing Fees & Value	Fiduciary Benchmarks	Other Providers using Form 5500
Proprietary Database	Thousands of plans in Broad Benchmark Groups	Not Available
Data or Grading Problems	None	Data Normalization issues and Rating could lead to embarrassing situations
Investment Lineup Analysis	None – this ensures your Investment Lineups will never be “graded”	Grading of Investment Lineup could lead to embarrassing situations
Passive Management Bias	None	Yes
Report	More Concise and More Accurate	Old data could lead to embarrassing situations
Fees by Service Provider	Fees and Value By Major Service Providers	Not Available
Plan Complexity	24 provisions that can lead to value-added consulting discussions	Not Available
Participant Success Measures	14 success measures that can lead to value-added consulting discussions	Not Available
Industry Insights	Refreshed with new Content each Month	Not Available
Price	\$3,500 to \$5,000 for unlimited use	\$7,500 to \$12,500 for a limited number of reports
Leads to Benchmarking Project Revenue	Yes	Not Available

Benchmarking: Version 2.0



Area	<i>Lessons Learned</i>
Independent	<ul style="list-style-type: none">• A number of the fee settlement suits have REQUIRED an independent opinion.
Data Accuracy	<ul style="list-style-type: none">• Collecting, checking and normalizing data from service providers is by far the best method.
Benchmark Groups	<ul style="list-style-type: none">• 4 sort factors out, 2 new factors added with more explanation for better apples to apples comparisons
Fees	<ul style="list-style-type: none">• Attribution analysis is required to help service providers and fiduciaries understand the differences
Value: Plan Sponsors	<ul style="list-style-type: none">• Market Based evaluation of services allows premier advisor services to be properly valued
Value: Participants	<ul style="list-style-type: none">• 4 new success measures, bold marketing message, and an emphasis on Plan Design
Value: Provider Cost	<ul style="list-style-type: none">• 4 additional factors on plan complexity and greater differentiation in the scoring system
Output	<ul style="list-style-type: none">• Summary of Fees AND Value placed side-by-side to avoid commoditization• Micro Market solution that is more concise and can be used as a “starter prospecting tool”• Added Process, People and Technology to ensure commitment to 10 business day turnaround time

Agenda



1. **Benchmarking Basics & Lessons Learned**
2. **Benchmarking and WIIFY**

Why is Benchmarking good for your clients?



PLAN SPONSORS



- Comply with legislation/regulation
- Protect from litigation
- Avoid embarrassing press

**Help shield them from
fiduciary liability**

PARTICIPANTS



- Higher Account Balances

**Help them achieve
Retirement Readiness**

Why is Benchmarking good for you?

Revenue Retention & Expansion

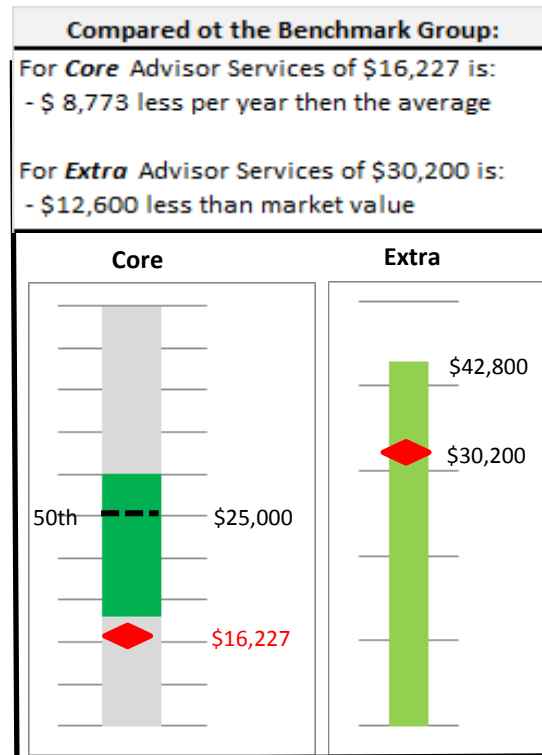


OUR SERVICE SUPPORTS REVENUE RETENTION AND EXPANSION BY.....

- **EMPHASIZING VALUE VERSUS COST** - our service can help you demonstrate your value to clients and prospects thus avoiding the commoditization trap that will befall those focused only on cost
- **INCREASING PROJECT REVENUE** - produced via the introduction of a new service that is superior to consulting studies that can cost thousands of dollars
- **ACQUIRING MORE NEW CLIENTS** - using actionable information that is customer-specific will result in value-added conversations, which should increase your close ratio

Fees & Value by Service Provider: Advisor

Fees	
Disclosure of Advisor/Consultant Fees	Plan Fees in Dollars
Investment Fees	\$ 16,227
Commissions	
Finder's Fees	
Other Fees	\$ 30,200
Total Fees	\$ 46,427



Per the DOL, the prudent fiduciary does not merely look for low fees. Instead, the prudent fiduciary determines fee reasonableness by looking at not only the fee being paid, but also by examining the quantity & quality of the services received by the plan and their participants. The two sections below provide important data on those value components.

Quantity of Services

Core Services:

- Analyze Plan Design Options
- Meet with Plan Committee
- Assess Plan's Investment Objectives
- Design Overall Investment Structure
- Develop, Maintain & Monitor IPS
- Provide & Review Performance Reporting
- Search for New Investment Managers
- Monitor Service Provider
- Ensure all Fees are Disclosed
- Benchmark Fees & Value for Reasonableness
- Review of Education Strategy

Extra Services:

- Review Plan Governance Structure
- Build Model Portfolios
- Review use of ERISA Spending Accounts
- Generate & Evaluate Service Provider RFP/RFI
- Support Contract Negotiation
- Support Service Provider Transition
- Plan Fiduciary Status of 3(38)
- Provide one-on-one meetings
- Provide Participant Education

Quality of Services

The Quality of Services is also important. Unfortunately, these are harder to measure on an apples to apples basis. Ultimately, however, plan sponsors want experts that have the aptitude and attitude to service their plan and their participants.

Aptitude:

- Experience
- Credentials
- Number of plans similar to yours
- Client Retention Rate
- Quality of Reporting

Attitude:

- Desire to work with you
- "Fit" with your company/industry
- Local Service (if so desired)
- Quality of Staff/Staff Turnover
- Speed of response to inquiries
- Client Satisfaction Scores (if any)

Increasing Project Revenue



FBI believes charging prospects for reports is possible due to the following reasons:

- *Plan Sponsors have clearly demonstrated the willingness to pay for FBI benchmarking reports:*
 1. *FBI has sold plans directly to plan sponsors for the retail price of \$2,500 for small plans and \$7,500 for large plans. The average sales conversation lasts no more than 15 minutes.*
 2. *Numerous Advisors have marked up FBI reports of at least 100%*
 3. *One BD has stated they will charge \$3,500 to \$15,000 to deliver benchmarks reports*
- *By charging for reports, 3 things happen from a client experience:*
 1. *More value will be attributed to the report*
 2. *The report will be perceived as more “independent”*
 3. *The client will not expect the advisor to pick up future “out of pocket” expenses*
- *Fiduciary Benchmarks reports can be assessed against plan assets or paid from an ERISA spending account per Fred Reish of Drinker Biddle.*
- *Any advisor markup for FBI reports does not need to be disclosed on either Schedule C or 408(b)(2) disclosure*

Acquiring More Clients – Setting the Stage



- There are approximately 500,000 plans in the US
- Approximately 450,000 of the plans are < \$10mm
- Industry “sources” say there are somewhere between 500 – 2000 Dedicated Retirement Plan Advisors (DRPA)
- Industry “sources” say that between 30,000 and 50,000 advisors have 5 or fewer plans
- Depending on market segment, anywhere between 15% (micro/small market) and 50% (large/jumbo market) of plans are not yet working with an advisor

Revenue Retention & Expansion

Acquiring More Clients – New Marketplace



- Regulations – 408(b)(2) and 404(a)(5)
- Consumerism
- Raising the bar



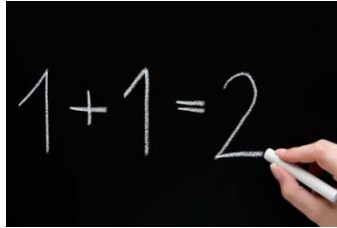
- Legacy Product
- Legacy Sponsors
- Legacy Advisors



“OPPORTUNITY”

Revenue Retention & Expansion

Acquiring More Clients – The Math is Compelling



500,000 plans / 2000 DRPA advisors = 250 plans per advisor!

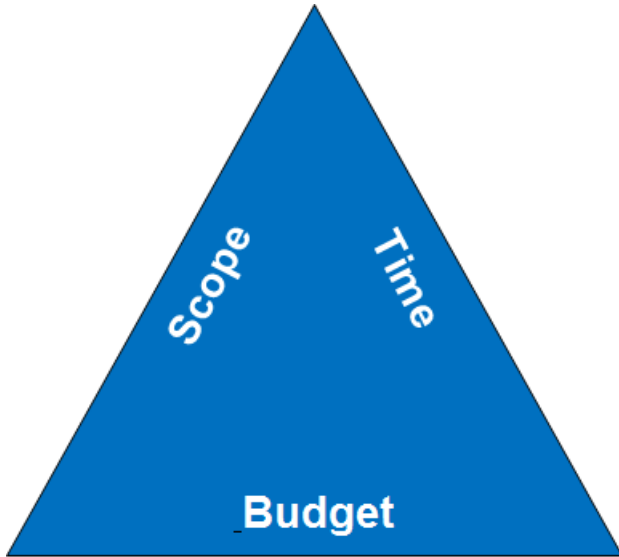
500,000 plans / 500 DRPA advisors = 1000 plans per advisor!



“OPPORTUNITY”

Why is Benchmarking good for you?

Increase Operational Efficiency



OUR SERVICE INCREASES EFFICIENCY BY...

- **SPENDING LESS TIME TO GET A BETTER RESULT** - our service is an outsourcing option that examines more meaningful issues, takes less time, and costs less money than an RFI/RFP thereby freeing you up to build your practice

Increase Operational Efficiency

Benchmarking is Superior to an RFP

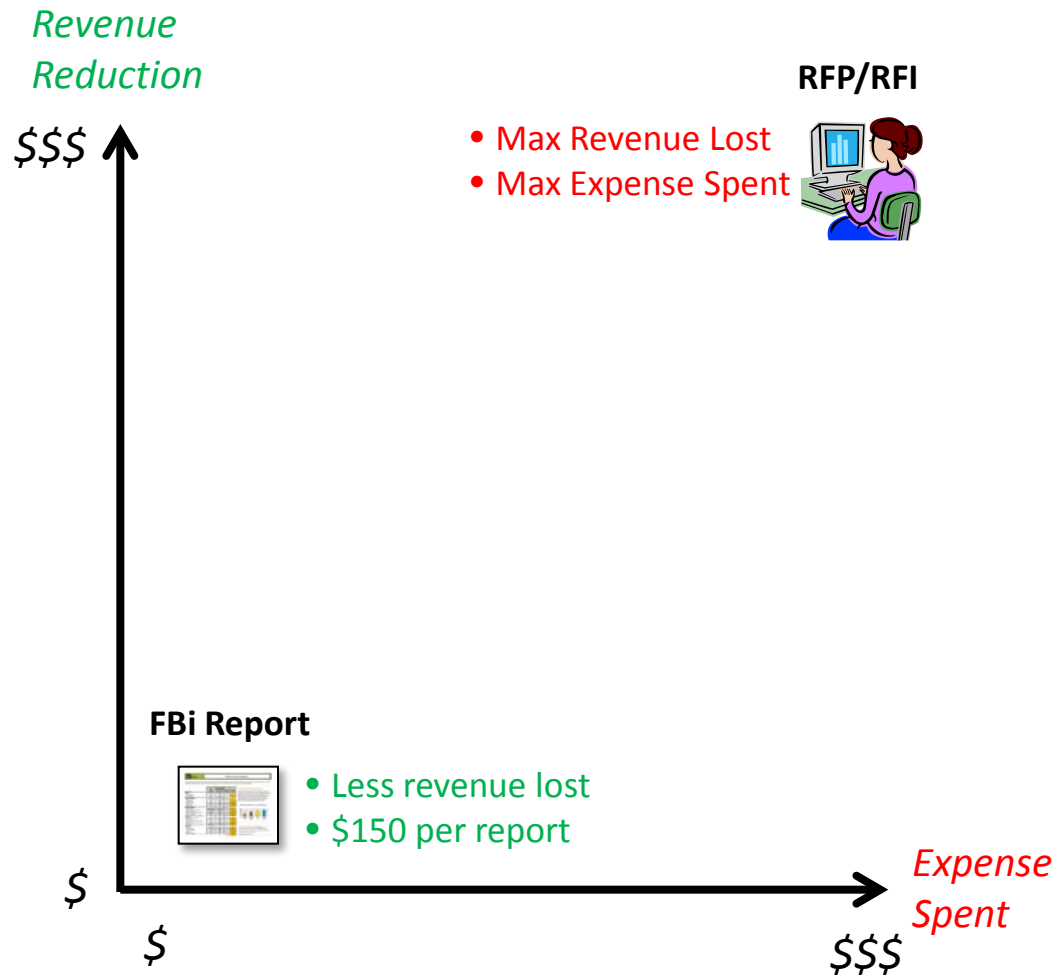


	RFP	Benchmarking
	Hours	Hours
Time to Draft RFP:	4.0	0.0
Authorization Form	0.0	1.0
Responses to 6 providers	3.0	0.0
Check on responses	1.5	0.0
Read Responses	12.0	1.0
Spreadsheet responses	8.0	0.0
Present to Plan Sponsor	1.0	1.0
Interview Finalists	8.0	0.0
Interview Evaluation	2.0	0.0
Final Negotiation	2.0	2.0
Total Hours	41.5	5.0
Hourly Rate	\$100	\$100
Cost for one client	\$4,150	\$500
Benchmarking License	\$0	\$5,000
Clients Covered	10	30
Total Cost	\$37,900	\$17,100



Increase Operational Efficiency

Benchmarking is Superior to an RFP



- FBI has seen numerous cases where a service provider using FBI has completely stopped an RFP process
- This has occurred with plans as small as a few million in assets to as large as \$600mm in assets
- In addition to improvements in Revenue, Expense and Client Retention Risk, Benchmarking changes the focus from PRICE FOR ONE PLAN to FEES AND VALUE FOR MANY PLANS

Why is Benchmarking good for you?

Reduction of Risk



OUR SERVICE HELPS MANAGE THE RISKS ASSOCIATED WITH THIS ERISA REQUIREMENT BY ...

- **DOCUMENTING THE PROCESS** - ERISA requires that fiduciaries insure that plans fees are "reasonable" and our reports provide THE critical documentation needed for that process
- **UPHOLDING CONFIDENTIALITY** - our systems, legal agreements and business model insure the data and results for your plan are kept completely confidential
- **PROACTIVELY MANAGING YOUR BOOK** - understand where your fees and services stand for a few plans, or for your entire practice, and drive the dialogue with those clients before someone else does

Reduction of Risk

Documenting the Process



\$15.2 million



\$16.5 million



\$18.5 million



\$36 million

The impact per one prominent ERISA attorney:

1. **Know what your fees are**
2. **Compare them to benchmarks**
3. **Monitor on an ongoing basis**
4. **Make sure you have real documentation**
5. **Hire Third-Parties for an independent review**
6. **Make sure you conduct a fiduciary audit**
7. **Have a Fiduciary Manual**

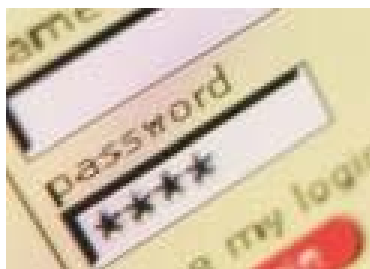
Marcia Wagner, Plan Sponsor interview, December 2009

Reduction of Risk

Upholding Confidentiality



**Contract
guarantees
confidentiality**



**System is
architected to
guarantee
confidentiality**



**Business model
depends on
confidentiality**

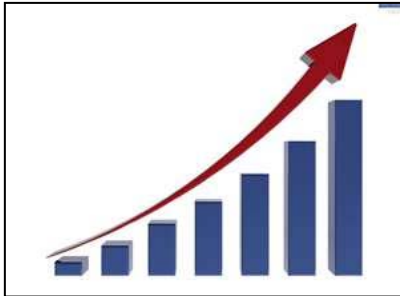
Reduction of Risk

Proactively Managing your Book of Business



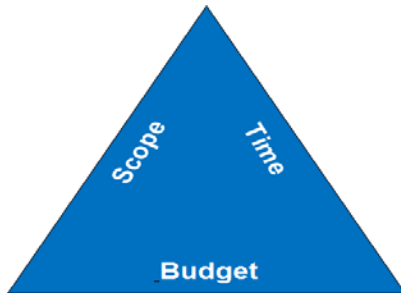
High Fees	1 Immediately address to reduce retention	3 Do not let yourself get commoditized
Low Fees	4 Low Fees give you some “breathing room”	2 Immediate cross-sell opportunity
	Low Value	High Value

WIIFY?



OUR SERVICE SUPPORTS REVENUE RETENTION AND EXPANSION BY.....

- EMPHASIZING VALUE VERSUS COST
- INCREASING PROJECT REVENUE
- ACQUIRING MORE NEW CLIENTS



OUR SERVICE INCREASES EFFICIENCY BY...

- SPENDING LESS TIME TO GET A BETTER RESULT



OUR SERVICE HELPS MANAGE THE RISKS ASSOCIATED WITH THIS ERISA REQUIREMENT BY ...

- DOCUMENTING THE PROCESS
- UPHOLDING CONFIDENTIALITY
- PROACTIVELY MANAGING YOUR BOOK



Fiduciary Benchmarks

Independent | Comprehensive | Informative

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