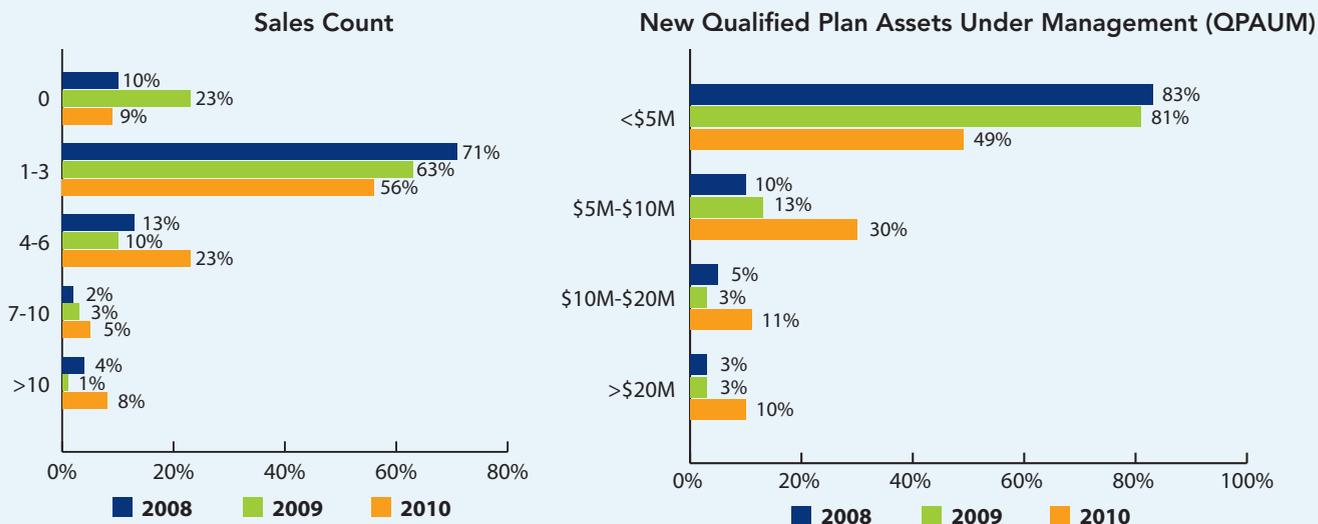


Retirement Business is Changing; Advisors are Adapting

by Ken Cochrane

Over the past two years, the economic climate and the financial services marketplace have changed drastically, significantly impacting advisors working in the qualified plan space. Overall, plan sales were down 20 percent in 2009 versus 2008, and 11 percent of advisors who sold plans in 2008 did not sell any plans in 2009. However, advisors report their qualified plan assets per sale increased 20 percent in 2009 over 2008.

ADVISOR QUALIFIED PLAN NEW SALES IN 2008, 2009, AND 2010 (EXPECTED)



Working with four of the nation's largest broker dealers, we have completed six studies of the qualified plan market in the past eight months. To complete the studies, each broker dealer identified their advisors actively working the retirement plan marketplace (qualified plan advisors) and asked them to complete an on-line survey. The result was significant with more than 800 responding. The focus of this work was to identify how the qualified plan market is changing and how advisors are evolving to meet the changing needs of plan sponsors.

The data collected provides valuable insight to broker dealers, product carriers, as well as advisors themselves—many of whom are working to shape their practice. Here we share some of the trends we're seeing among qualified plan advisors and

their business, including market shifts, a movement toward specialization, greater fiduciary roles, advisor support and client service.

MARKET EVOLUTION

An overarching macro trend is changing the retirement plan business. Plan sponsors are looking for advisors to take an expanded role in an era of heightened scrutiny, awareness and complexity. To remain competitive and retain their clients, advisors have readily accepted these demands by taking on greater responsibilities for the plans they sell and service.

The current economic environment has continued to strengthen plan sponsors' demands and accelerated advisor acceptance. Falling equity values, lower interest rates and high

unemployment have heightened plan sponsors' expectations from their advisors.

SPECIALIZATION

As a result of this macro trend, advisors are moving toward specialization. The data we've collected not only demonstrates this shift, but that its momentum continues to grow. Driven by the increasing demands of plan sponsors, advisors feel they

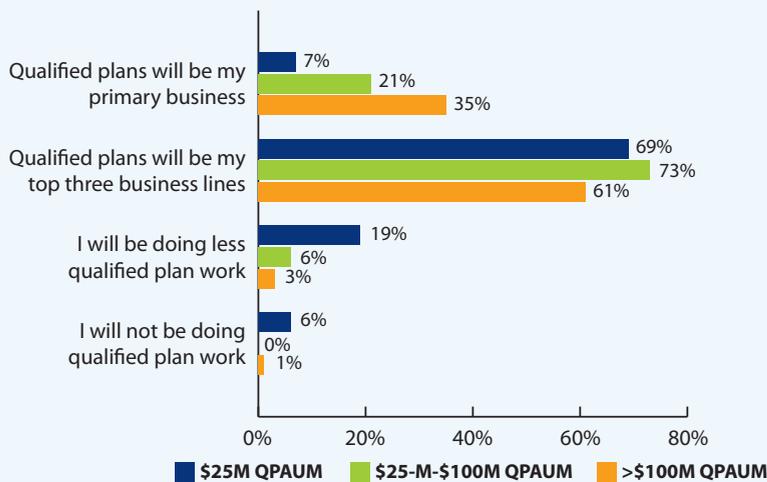
trusted advisor to their markets. Many felt positioning themselves as a qualified plan specialist gave them an advantage over their competition.

FIDUCIARY ROLE

Meeting the growing needs of qualified plan clients and further distinguishing themselves as professionals, more than 75 percent of qualified plan advisors now consider themselves functional fiduciaries to both the plan and its participants. In addition, a growing majority of advisors are using or plan to use service agreements with their qualified plan clients. These service agreements typically state the role of the advisor, what the plan sponsor should expect from the advisor as well as compensation to the advisor.

Advisors report that service best practices revolve around communication with both the client and the advisor...

ADVISORS REPORT – IN THE FUTURE



must develop a higher level of expertise to remain competitive. This movement toward specialization is evident in advisors' changing support requirements, expanding advisory roles, sales approach and portfolio of retirement plan clients. Roughly half of these advisors have made qualified plans either their primary business or one of two or three lines.

We're also seeing advisors move more and more to develop their brand. In a recent study, advisors ranked their brand as most important to their business, citing the need to position themselves as experts in their specific business lines and as a

Even while congress remains distracted by a variety of pressing issues, almost all advisors agree that fee disclosure legislation will eventually be passed and signed into law. In their expanding role, advisors report that more than half of qualified plans will be subject to competitive reviews as a result of anticipated new fee disclosure requirements. *(see graph on the opposite page)*

SUPPORT

As their business continues to evolve, advisors report the support to which they have become accustomed has not kept pace with their changing needs. Advisors cited that areas lacking adequate support range from service agreements to risk assessment and mitigation tools. Furthermore, advisors felt the courses and information available to help them fulfill their expanding

role and continuing education requirements have not kept up with the market.

We've also found that advisors are reporting a misalignment between their business needs and goals and those of their carriers. They frequently cite wholesalers offering little perceived value, carrier-sponsored seminar topics not meeting their needs and a lack of business value-adds from carriers.

Advisors are also looking to carriers to provide greater product flexibility to meet their clients' evolving needs. Our data suggests carriers have been able to revise product offerings to meet these demands. Evident changes include, but are

not limited to, administrative service offerings, methods of compensation, investment portfolio structure and product platform.

CLIENT SERVICE

In the complex world of qualified plans, advisors frequently note client service as one of the five most important attributes when selecting a carrier. Advisors report that service best practices revolve around communication with both the client and the advisor—specifically, the ease and effectiveness are crucial.

While technology can handle more and more service requirements, advisors report that human interaction remains necessary on the plan sponsor level. Data reveals that more than half of advisors meet with qualified plan clients at least twice each year, and 30 percent of advisors meet with plan sponsors at least quarterly.

Advisors predicted they will sell 80 percent more plans this year than they did last and will double their new qualified plan assets in 2010.

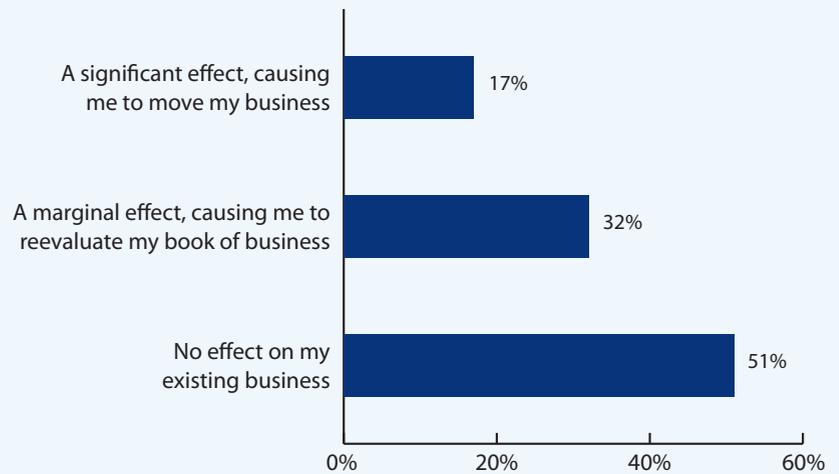
On the participant level, advisors are looking more and more toward web sites and phone centers to handle on-going service. A growing importance of the functionality and effectiveness of a participant web site has become evident in the advisor's carrier selection process.

CONCLUSION

Regardless of the past year, qualified plan advisors remain confident. Advisors predicted they will sell 80 percent more plans this year than they did last and will double their new qualified plan assets in 2010. Certainly, this appears optimistic, but it does demonstrate the willingness and desire to continue working in the qualified plan marketplace.

The trend of expanding advisor roles is a result of both advisors looking to offer more competitive and comprehensive services and employers looking to advisors to take a greater role in the management of their retirement plan. In the foreseeable

ADVISORS REPORT – FEE DISCLOSURE REQUIREMENTS WILL HAVE



future, this trend will only become more pervasive as regulations change and new legislation is signed into law increasing the complexity of the retirement plan.

Advisors considering entering this field or looking to become more active in qualified plans should consider that specialization will become more common as the demands on advisors increase. An advisor should take the time to gain a comprehensive understanding of plan design and regulations, required filings, fiduciary roles and risk mitigation tools, pending legislation as well as be able to commit the time and energy needed to fulfill this expanded role.

Pulse Logic is a market research and advisory firm that specializes in financial service product distribution. Our work focuses on collecting forward-focused data and helping our clients address their most pressing distribution issues.

Ken Cochrane is a Co-founder and the Managing Director of Pulse Logic. In addition to his market research, Ken also works with companies to help them grow by identifying and implementing their brand strategy, as well as developing and executing sales plans and management practices.

Ken can be reached at: kcochrane@pulse-logic.com