

EMPLOYEE BENEFIT Adviser

Make the
most of a
MERGER

LTC:
**Long-term
career**



Knockout service

Cornering the small group market one move at a time, Susan Combs uses her keen customer service skills and rapid response time to keep clients coming back, round after round.

ON THE COVER

44

Gotham's go-getter

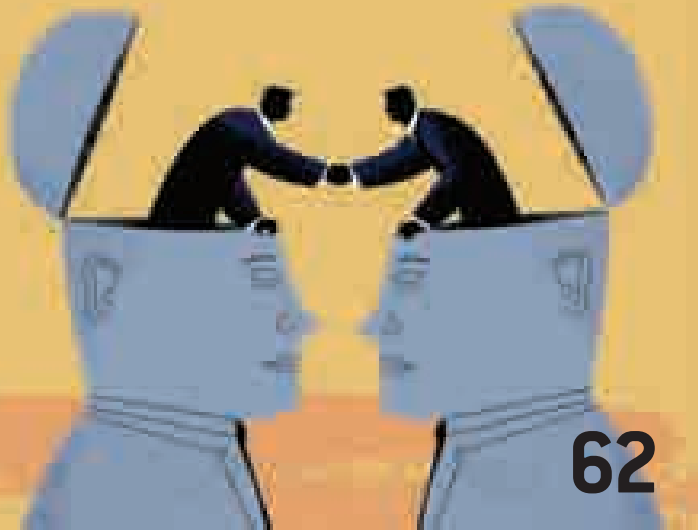
With a gift for customer service and a record of unbeatable responsiveness, Susan Combs tackles the small group market in the Big Apple.

FEATURES

56

Embracing LTC

Employers long reluctant to offer long-term care services to employees are taking another look at the product. Two recent converts discuss their decision to sign up.



FROM THE EDITOR

- 8** Broker fly-in brings big numbers to D.C.

SOUND OFF

- 10** Don't let health reform efforts steamroll you out of business.

ON THE WEB

- 12** Check out our online coverage of the broker industry's July Washington, D.C., fly-in.

BY THE NUMBERS

- 14** Cut costs or make money; why choose?

HEALTH

- 16** It's been six months since the COBRA subsidy took effect. How are employers handling it?
19 'Pay or play' may not be as painful as you think.

RETIREMENT

- 20** Better manage your business by knowing where sponsors shop theirs.
24 Speakers defend defined contribution plans at the 2009 SPARK National Conference.

- 26** Do target-date funds need more regulation, or is flexibility key?

VOLUNTARY

- 28** It takes more than a Web site or hotline to make voluntary benefits a success. Experts convene for a roundtable on the best way to move products and keep employees engaged.

YOUR BUSINESS

- 62** A merger or acquisition can look great on paper, but once the deal is done the important work of keeping the connection viable begins.
64 Embrace the positive implications of change with strategic planning.
66 How small is too small for a self-funded plan?

MOVERS & SHAKERS

- 68** Surveys reveal employees may be all too willing to leave a company when the job market picks back up. Save costs by keeping them happy and willing to stay.

SALES CALL

- 70** The timing is right to bring a wellness program under your brand name. Follow these steps to learn how.
72 You may refuse to use the most popular social networking sites at work, but you still need to know about them.

TIPS ON TECHNOLOGY

- 74** Returning to the days of data mining.

BE ADVISED

- 82** If health care reform brings commissions to a halt, you better be prepared to survive on other revenue. Do your customers know your value?

Also Inside

- 76** PROVIDER PROFILES
80 BENEFITS MARKETPLACE
81 RESOURCE GUIDE



Robert L. Whiddon
Editor-In-Chief

In lieu of flowers,
donations may
be made to the
Children's National
Medical Center,
www.childrensnational.org.

A fitting send-off

Below we print the last "From the Editor" column from EBA Editor-in-Chief Robert Whiddon. The last, because as many readers know, Robert died on July 17, 2009. It has been a stunning loss, personally and professionally, for those of us who worked with him daily. And his passing stills a powerful voice that echoed tirelessly and passionately for the industry he served.

Sadly, one of Robert's proudest moments came just before his death when he welcomed brokers to Washington, D.C., for a day of lobbying on Capitol Hill. In the account below, Robert quips that if selling health insurance didn't work out for these brokers they could always find work in Washington, where they would be "doing what they've always done: listening, asking questions, trying to help someone understand the options and then formulating a strategy and executing it."

That's also what Robert did, as well as any journalist to ever serve the benefits industry. He will be sorely missed.

— David Albertson, Editorial Director

WHILE LOTS OF PEOPLE IN THE INDUSTRY are rightfully worried about whether they'll be reformed out of the market, recent events show that another proverbial door may be opening even if one shuts.

Major trade groups arranged a "fly-in" for their members in mid-July. Folks like Joel Wood of CIAB, Diane Boyle of NAIFA-AHIA, Janet Trautwein of NAHU and Charles Symington of the Big "I" were sitting around one day thinking about how they could make their jobs a little harder.

They were already strapped, trying their best to make sure Capitol Hill lawmakers had some idea of the fire they were playing with on health reform. But the foursome decided that arranging a day of lobbying for their respective members was what was missing.

It started out modest enough, with the groups thinking they would pull maybe 300 or so members. But then, 300 jumped to 600, then 900, capping out at more than 1,000 day-lobbyists registered for the July 15 event. Another 200 just crashed, showing up the morning of without any warning.

Fortunately, Trautwein and company had done their homework, setting up 400 Capitol Hill appointments for the participants to meet with members and their staffs.

Some of the newly minted lobbyists wanted advice about the tone they should strike with lawmakers — the ones who seem committed to making advisers pay for dismantling their own marketplace.

Be positive, be knowledgeable and ask questions, was the advice given. For instance, if a member or staffer starts to assert that "the public plan will compete fairly with the private market," listen and then follow up with the right questions. For example, will the public plan have to pay premium taxes?

It turned out that the army of advisers who made their way to D.C. that day didn't do half bad in their meet-and-greets. They might just have a future in the business if the whole group health insurance thing doesn't pan out. They will be doing what they've always done: listening, asking questions, trying to help someone understand the options and then formulating a strategy and executing it.

That's what brokers and advisers do for their clients and that's what they did for America in mid-July with members of Congress.

EDITORIAL HEADQUARTERS
1325 G Street, N.W., Suite 900, Washington, D.C. 20005
202/504-1122 • Fax: 202/772-1448

VP & Group Publisher: Jim Callan

Editorial Director: David Albertson
Editor-In-Chief: Robert L. Whiddon
Senior Editors: Kelley Butler, Lynn Gresham
Associate Editors: Elizabeth Galentine, Leah Shepherd, Lydell Bridgeford
Contributing Editor: Elayne Robertson Demby
Director of Editorial Projects: Marsha Turney
Group Art Director: Hope Fitch-Mickiewicz
Associate Art Director: Robin Henriquez

EDITORIAL ADVISERS

Helen Box-Farnen, vice president, Aon Consulting;
George Lane, principal, Mercer; Andy Torelli, president, e3 Financial

ADVERTISING HEADQUARTERS

1770 Breckinridge Parkway, Suite 500, Duluth, GA. 30096
770/381-2511 • Fax: 770/935-9484

ADVERTISING SALES STAFF

National Advertising Sales Director / Northeastern Regional Manager: Jim McLaughlin, james.mclaughlin@sourcemedia.com
Central Regional Manager: Gary DeHart, gary.dehart@sourcemedia.com,
Western Regional Manager: Lydia Fiorina, lfiorina@jjhs.net
Provider Profiles and Benefit Marketplace: Kurt Kriebel, Kurt.Kriebel@sourcemedia.com
VP Business Development: Adam Reinebach
Group Production Director: David Cichowicz
Associate Production Manager: Giovanni Masi
Marketing Manager: Amy Metcalfe, amy.metcalfe@sourcemedia.com

CIRCULATION STAFF

One State Street Plaza, 27th Floor, New York, NY 10004
212/803-8200 • Fax: 800/235-5552
Customer Services: 800/221-1809 • Fax: 212/803-1592
custserv@sourcemedia.com
Reprints: Godfrey R. Livermore, 212/803-8351
Group Marketing Director: Michael O'Connor
Fulfillment Director: Jessica Cox

CONFERENCES

Benefits Management Forum & Expo
National Account Executive, Conference and Exhibitions Group: Chris Frey • 212/803-6568
christopher.frey@sourcemedia.com



SourceMedia, Inc.

Chairman & CEO: James M. Malkin
Chief Financial Officer: William Johnstn
VP, Sales & Customer Service: Steve Andrezza
SVP, Finance & Accounting: Richard Antoneck
SVP, Director of Operations & Technology: Celie Baussan
EVP & Chief Content Officer: David Longobardi
EVP, Marketing & Strategic Planning: Anne O'Brien
Senior Director, Human Resources: Ying Wong

REPRODUCTION POLICY

No part of this publication may be reproduced or transmitted in any form without the publisher's written permission.

TRANSACTIONAL REPORTING SERVICE

Authorization to photocopy items for internal or personal use, or the internal or personal use of specific clients, is granted by SourceMedia, provided that the appropriate fee is paid directly to Copyright Clearance Center, 222 Rosewood Dr., Danvers, MA 01923, U.S.A.

Now is the time for action

BY TODD BRYANT

The July issue has Bryant pumped up to get involved in the health care reform debate, but he wants more evidence before he starts promoting the link between vision care and overall better health.

Wow, what an issue last month! Our future as benefit advisers will be decided soon. We need to get involved.

Removing the tax deductions on employer health plans is crazy (“To tax or not to tax,” p. 16). How will we make coverage more



affordable by raising the price? The individual tax credit is not a solution. We need to maintain group plans. These spread the risk among a group of similar employees, offer multiple plan choices, and here in Texas there

are mandates to make sure people get covered and renewals are justified. In Texas, the insurance carriers are mandated to require a minimum employee participation level and employer cost contribution. If we want to fix “job lock” then let’s work with the carriers on a solution such as transfer of creditable coverage to individual plans.

I do not agree with the Senate Finance Committee statement that the tax-free status encourages “Cadillac plans” and over-use. They think employers have all this money to throw at expensive, low deductible, co-pay filled plans. Not true! All the employers that I work with take a hard look at their plan designs to balance utilization and cost issues.

Proper partners

I enjoyed the article “The right retirement partners can make all the difference” (p. 22). I value the deep relationships I have with service providers. By narrowing them down to a well-researched few, I learn all facets of how they work. We should go the extra mile to do site visits to TPAs, record-keepers and mutual fund offices to meet all of the people we will interface with — analysts, plan document writers and the people manning the call centers. It is also important to have providers that can handle those special “niche” plans.

From the cover story, “Make it or Break it Time” (p. 35), I’m glad we have our representatives work-

ing the halls in D.C. We need to band together as a profession and show our true worth.

Congress needs to understand what we bring to the table as benefit advisers — we are not just “brokers” looking for a sale. I am glad that our representatives are looking at the details in these bills, especially the definitions of the terms used. Little things such as the definition of “small group” can make a huge difference in outcomes.

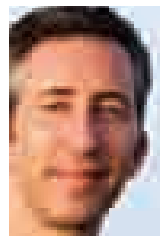
We also need to work to protect Americans’ freedom of choice. A government-run plan would have an unfair advantage and would soon become our only option. We need to keep market forces at work to give people options for their health care.

Focus on the findings



Finally, I would like to see more scientific data on the link between vision care and overall health (“An Eye for Worker Health” p. 45). I’m a big believer that the body is an interconnected system. But we need more of a reason to show the link with vision other than “it will provide another line of business with your client.” The dental carriers and the ADA did a great job showing the links of periodontal disease to overall health with scientific data on low fetal birth weight, coronary disease, arterial plaque biopsies, and other links. We need this data for vision plans as well. Also, we as advisers need to point out that many fully-insured medical plans cover a vision exam and offer free vision discount plans to enrolled health plan members. **EBA**

Bryant, founder SB&K Benefits, can be reached at toddb@sbkbenefits.com.





Bloggin'

If it's on benefits, it's on our blog.

Benefits Explained, where we talk to brokers and advisers, policy experts and insiders about the latest industry information, has joined forces with By the Numbers. Now we're bringing you the latest facts and figures all in the same place: eba.benefitnews.com/blog/bythenumbers.

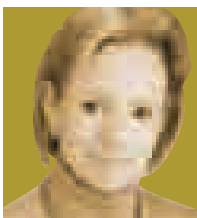


Were you one of the 1,200 brokers who made the trip to Washington, D.C., July 15 for the joint Association of Health Insurance Advisors, Council of Insurance Agents & Brokers, Independent Insurance Agents & Brokers of America and National Association of Health Underwriters fly-in? Check out our slideshow on eba.benefitnews.com/blog/bythenumbers to see if you made it into our morning photo reel.

RAW BAR'S Best Bytes

Make sure to check out who we've been talking to recently online. Visit EBA's Raw Bar at eba.benefitnews.com/podcasts.

Sponsored by
TEXASLIFE
INSURANCE COMPANY



Employers want health reform in manageable bits and bites, according to a new survey by Mercer.

Listen in as the firm's Linda Havlin talks about how employers are excited about efforts to improve health care quality and efficiency, but not so into taxing health benefits and mandated coverage.



Bust up BUCA!!! That's Sam Fleet's first of six recommendations for fixing America's health care system.

AmWINS Group Benefits' president says BUCA is a monopoly and the anti-trust issues can no longer be ignored. Hear what else Fleet recommends, but be careful, he's not pulling any punches.



401(k)s are racist, too?

Not only are people questioning whether America's dominant retirement vehicle works, new research shows gaps among demographic groups on such key variables as participation rates, loans and hardship withdrawals. Listen to study authors Barbara Hogg of Hewitt and Melody Hobson (pictured) of Ariel Investments detail what they found.



Dems more interested in passing bill than getting health reform right.

That was one conclusion Accelerated Benefits' Dave Petno came to after meeting with congressional representatives July 15 when he flew from Ohio to Washington, D.C., to meet up with more than 1,000 brokers in town for 400-plus meetings on Capitol Hill.

What advisers are reading

Here's a rundown of what's getting the most clicks at eba.benefitnews.com. Don't fall behind; make sure to go there yourself and keep up with your competitive set.

1. Health benefits taxation takes center stage
2. Democratic reform plan promising public option draws strong opposition
3. Cost-control efforts delay health reform bill
4. New reform bill provisions impact employers as brokers rally for Capitol visit
5. Towers Perrin, Watson Wyatt merge
6. Doubt over health reform good timing for lobbying brokers
7. Health insurers feel economic pinch ahead of possible reform punch
8. Ignorance reigns on generics
9. Opinion letter questions legality of HRAs
10. Americans go online for health information

Do you want to cut costs or make money?

It seems the benefits industry just can't decide whether corporate health improvement programs are meant to save a company money or make more of it.

While 40% of responding benefit professionals (a mixture of benefit advisers, employer-based benefit professionals as well as carriers and vendor-based benefits experts) said the goal was to save costs, nearly as many — 38% — said the goal was better worker productivity.

The survey, conducted in conjunction with a Web seminar on the same topic, reveals the industry is divided over several other aspects of wellness and other employee health programs.

Seminar participants were also asked whether a company's overall workforce health should be included in filings and other corporate documents meant to describe its overall financial health.

A strong majority said yes.

What is the goal of a corporate health improvement program?

38% PRODUCTIVITY

15 Percent Other

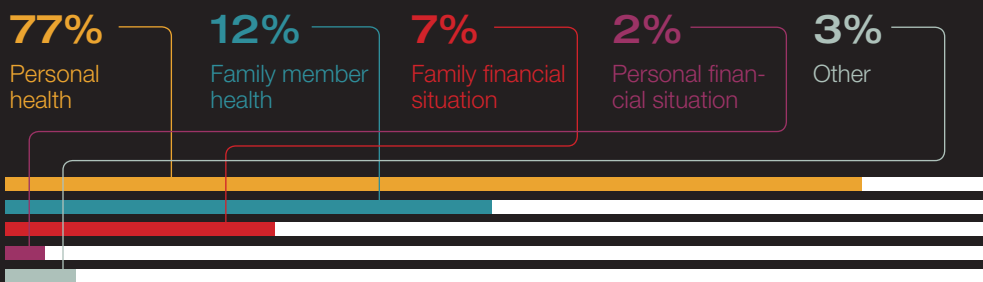
Attract and retain workers **7 Percent**

40
PERCENT
SAVING
COSTS

What are the largest cost drivers for employers?

50 Percent Medical **26 Percent Presenteeism** **16 Percent Absenteeism**
2 Percent Pharmacy **6 Percent Other**

Which of the following is the biggest drag on workforce productivity?



Reader react Posted by:

stewpot |
July 8, 2009
10:30 AM

Join the discussion at
[eba.benefitnews.com/
blog/bythenumbers](http://eba.benefitnews.com/blog/bythenumbers)

Actually I am delighted that we are getting high marks on both fronts: less medical claims as well as better productivity. In my mind that is what wellness is all about. Why does it have to be one or the other?

Are business leaders generally interested in managing and improving worker health?

Yes **64%**

No **31%**

Other **5%**

Less costs!
More money!
Both!



Source: Employee Benefit Adviser 2009.

Charming the snake

HELPING CLIENTS DEAL with the plethora of questions that arose from the stimulus-driven federal COBRA subsidy is a business bonus, but are ex-employees taking advantage?

When Gary Goodhile decided to offer COBRA administration services to customers of his benefits firm eight years ago, he had no idea how much that decision would pay off. Six months into this year's federal stimulus package subsidy, the co-founder of Sullivan Benefits couldn't be happier.

Of course, when the subsidy was announced in February it immediately meant a lot of late nights and extra work, but it also meant "quite a lot of opportunity" to reinforce the value of the benefit the Massachusetts firm has been offering all these years.

"All of our clients are pretty thankful that we've been doing that for them for all this time," Goodhile says. "Now they really realize, given all that went on, they didn't have to worry about that transition, which was kind of a nice offshoot. A lot of work, but there was some reward along the way, too."

With several months of the subsidy left and no certainty that it will not be extended, *EBA* caught up with Goodhile and other COBRA experts to get their take on how employers are dealing with the change and what it could mean for health care reform efforts as a whole.

Problems up front

When the American Recovery and Reinvestment Act of 2009 became law on February 17, employers underestimated the amount of time and attention the COBRA provisions, which provide a 65% subsidy to qualified terminated employees, would require, says Christopher McMican, principal and employee benefits group leader with Miller Canfield law firm.

"There were so many complications that I think people all of a sudden said, 'Wow we really have to pay attention to this and we really have to have an understanding. We have to ... rethink the way that our COBRA forms work and our COBRA program works with our health plan documents' and things like that," he says.

IMAGE BY MARK BREWER



"So I think that was the first thing that sort of took people by a little bit of surprise."

Spencer's Benefits Reports has been steadily surveying employers on the Consolidated Omnibus Budget Reconciliation Act since its enactment in 1986. Managing Editor Stephen Huth says when the law was stable and costs were under control in the '90s the number of employers reporting no problems with COBRA was gradually increasing. "Both of those now have changed," he says. "The costs are going up and there's a whole new law that people have to pay attention to and administer so there are relatively few people who don't see any problems with COBRA."

One of the most common COBRA concerns McMican gets from employers — who still call him on the subject at least twice a week — is from an increasing number who had already agreed to pay for a portion of COBRA costs for the first month or two. The Department of Labor has ruled that the subsidy is to be applied based on what the employee is charged, and therefore the employer does not qualify for the subsidy if they are covering COBRA costs for the ex-employee. "I think some employers got taken a little off guard by that," says McMican.

With an increasing number of companies

Health

on self-insured plans, McMican says most of them have reconciled the issue by giving one free month of COBRA followed by eight months of the subsidized rate, as the subsidy is only offered for nine months.

Goodhile knew getting into COBRA administration services would be costly, but also knowing that a good chunk of his clients — 50 to 200 life groups — don't have as many issues to monitor and track once they have the right plan and vendors in place, he wanted to have a good reason to get together with them on a regular basis. "COBRA, there's always something going on there. It's a new hire notification package or a termination or whatnot," he says. "There's all kinds of things that go on every day, week and month for all of those clients. So it allowed us an opportunity to stay in touch with what's going on with our clientele."

As the news about the subsidy unfolded, Sullivan Benefits sent out information through their e-newsletter and hit the phones. "We called them right at the beginning and said, 'Look, this is happening, this is what's taking place, this is what we're doing ...,'" says Goodhile. "We got to them early. We let them know we're on top of it. When they've had questions they call and we're all over the answers and get right back to them."

Utilization rates

The 2009 Spencer's Benefits COBRA survey, administered before the subsidy went into effect, revealed that although the number of people eligible for COBRA was the highest in the survey's history (16.87%), election rates were at the lowest (9.69%). "The effects of the recession made it more difficult to pay for the coverage, which has always been true," says Huth. "I think it's just more difficult now."

Early analysis of the subsidy provisions suggested that utilization rates would likely be significantly higher during the government-supported COBRA period,

according to James McElligott, a partner with McGuireWoods' tax and employee benefits Group. However, that's not what McElligott has been hearing from clients so far. "I've gotten in several more reports from clients who report low COBRA utilization even with the subsidy," he says. "...I'm surprised that there are no reports of dramatic

I would have thought that you would have seen everybody take it, but I think there's a lot of people that while they only have to pay 35%, if you don't have the money it doesn't really matter.

increases in COBRA utilization."

While it's still early, Goodhile reports "a fair amount" of his clients' ex-employees electing COBRA. "It's not as high as you might think. I would have thought that you would have seen everybody take it, but I think there's a lot of people that ... while they only have to pay 35%, if you don't have the money it doesn't really matter," he says. "There's a certain population that just flat-out can't afford any of it when they're out of work."

What's next

As one of the first health care-related acts under the Obama administration, the COBRA subsidy gives a starting off point from where we can expect to see more permanent legislation head. But, McMican sees a difference between this legislation and anything that may be enacted in the coming months. "I think they're going more toward universal coverage or coverage of more individuals and more families as opposed to paying for it," he says. "I think this was sort of meant to be a stop gap for a time period where there are increased involuntary terminations and less dollars to pay for that."

Although there's been no word on

continuing the subsidy into next year, Goodhile says it could happen. "My inclination would be that based on the way this new administration has gone about spending money I can't imagine that they're going to hold back on this," he says. "These are people in need. My guess is there will be some form of continuation. Whether it's at the same threshold I don't know."

Extending the subsidy would be a relatively simple project, says McMican. "They've got enough guidance out there where everything pretty much would apply now ... I think they've got the framework in place where it would be pretty easy to extend it, say another six or eight months or something, and see how it goes with the economy."

One issue employers are grappling with is whether or not to update their ERISA plan documents to reflect the subsidy if it is going to run out at the end of the year, says McMican. Employers are thinking, "If it's an operative law and it's in play for a year, year and a half maybe we ought to at least state what the rule is in short form," he says. "Or should you not and mention that the subsidy might apply and reference the COBRA forms?"

The short amount of time that the subsidy has been in effect so far has been long enough for some employers to discover their COBRA administrator is not as agile with the changes as they would have expected, says Goodhile. Sullivan Benefits has the advantage of knowing every one of their clients, and it's getting notice from perspective businesses. Goodhile recently met with "a fairly sizable account" that was unhappy with their national administrator.

"It has given us an opportunity to reinforce the value that we bring to our clients and it's created some new business opportunities for us as well. It's allowed us to feel confident that we are in control," Goodhile says. "God, if we were outsourcing it and the administrator couldn't execute, it would be a nightmare." **EBA**

New research says 'play or pay' not as painful as originally estimated

BY KATHLEEN KOSTER

A recent study from the Economic Policy Institute, a non-partisan and nonprofit think tank, concludes that a “play or pay” mandate, under consideration in both House and Senate health care reform proposals, would cause fewer job losses than originally speculated. Despite the findings, many still insist that such a mandate would have grave consequences for companies and those they employ.

Author Phillip Cryan — who completed the research for a Masters thesis in Public Policy at the University of California-Berkeley — disagrees. He argues that not only are these concerns over job losses “overstated and unfounded,” but also a health care reform package that includes a “play or pay” mandate would, on the whole, cause a “significant boost to employment.”

According to Cryan, prior studies that predicted much higher unemployment rates used widely different parameters, with some measuring the effects of a 40% tax on payroll. In what Cryan presents as the worst-case scenario with an 8% payroll tax (on the steep end of the 4% to 8% range proffered by policymakers), 166,095 jobs would be lost or 0.1% of employees would be put out of work.

“I think that many of the people who are making those claims of huge job losses ... are motivated more by their political opposition to the president’s reform package than by a careful look at that prediction,” says Cryan.

Other findings that use other baselines put the job toll much higher. In a study for the National Bureau of Economic Research, Katherine Baicker, a professor of health economics at the Harvard School of Public Health predicts that 0.2% of full-time workers and 1.4% of

uninsured full-time workers would lose their jobs due to a health insurance mandate. However, she assumes that employers would be mandated to pay 80% of the premiums for their employees, a proposal that was floated in the health care debate during the early '90s.

As far as Cryan is aware, no other study takes into account the 4% to 8% payroll tax range. “For this kind of predictive analysis, there’s always going to be a range of reasonable predictions because there are a lot of assumptions that you build into the methodology of that kind of study,” he explains. “The entire range of reasonable assumptions for the effect on employment of a ‘play or pay’ policy adopted, hypothetically, in isolation goes from small positive to small negative. Even in the worst-case scenario that small negative effect is likely to be vastly outweighed by the positive effects of health care reform.”

Others argue that Cryan’s own parameters miss the point by measuring the entire employment base instead of narrowly examining those that would be hit hardest: small businesses who tend to not offer employer-covered health care, and lower-income workers.

“There are plenty of problems with an employer mandate: it isn’t free and it will have some unemployment effects, the [EPI paper] doesn’t dent that in any way,” says Tom Miller, resident fellow, American Enterprise Institute for Public Policy Research. “There are a lot of heroic assumptions in there that don’t stand up, in addition to which, the other components of employer-based opposition to

a mandate go beyond whether they will have to cut payroll, but actually whether they will lose control with their benefit structure.”

Meanwhile, in a June 30 letter to President Barack Obama, Wal-Mart offered support for a ‘play or pay’ employer mandate. “We are for shared responsibility. Not every business can make the same contribution, but everyone must make some contribution,” wrote Mike Duke,

Wal-Mart president and CEO, along with Andrew Stern, president of Service Employees International Union and John Podesta, president and CEO of the Center for American Progress.

Cryan thinks that it “sends a clear signal to other employers” to shoulder the responsibility of providing universal health

care. He recommends that all employers “sit back for a minute and think through the likely effects on productivity and retention associated with everyone having secure access to quality health care.”

Wal-Mart’s announcement may be testament to the strong political steam behind the mandate proposal or perhaps the company is merely being prudent by jumping on the moving train before it reaches the station in the hopes of having some influence over the cargo.

Either way, there is much at stake in not only whether there is an employer mandate, but also what form it takes. Those watching the debate would be wise to understand both where different researchers end up in their estimation of the impact of “play or pay” as well as understanding how they got their. **EBA**

PODCAST

Visit eba.podhoster.com to hear Devin Harrick of the National Center for Policy Analysis talk about the Economic Policy Institute’s “play or pay” research and other divisive issues at the heart of today’s health reform debate.



Know thy pipeline — the when and why sponsors are shopping

IT TOOK A WHILE to get here, but like the health side of advising, pipeline management is a big part of retirement success. If you know why sponsors shop their business, you can better manage yours.

For the last several months I've set out to help advisers who may or may not be intimate with the 401(k) space get to know it a bit better.

We kicked things off by talking about how the economy was proving a perfect opportunity for both novice and seasoned retirement advisers to think about expanding. Then we talked about the common mistakes health advisers make when building their retirement muscles.

Next we offered some tips for making sure advisers don't trip over themselves as they set out to offer more services to their existing clients. And just last month the focus was on the importance of good partners, record keepers and third-party administrators among them.

It's taken us a minute or two, but at last we're where the rubber meets the proverbial

road. And just like on the health side of benefits advising, for many, it's all about the pipeline.

Since before 2000, 401kExchange has been tracking the monthly 401kExchange Opportunity Index. This index is based on almost 50,000 surveys with 401(k) plan sponsors each year. It tallies the percentage of plans that indicate that they are thinking of changing or actively searching for a new record keeper.

This index is a conservative leading indicator as to potential movement of 401(k) plans and is relied upon by many industry professions. Since advisers can get hired even if there is no intent by the sponsors to change vendors, 401kExchange started tracking sponsors likely to change advisers as well as the likelihood of plans without an adviser to hire one. With the advent of investment-only providers (those who manage money but do not perform record keeping services), sponsor appetite for changing or adding funds is also tracked.

With this article, 401kExchange will publish the monthly opportunity index with commentary on what it means to industry professionals and some perspective on how it is changing.

Putting it into perspective

To give some perspective, the index was relatively low after the market crash of March 2000, but became completely unglued after September 11, 2001. Sponsors concerned about health care costs, the health of their businesses and the steep decline in the stock market were uninterested in moving their 401(k) plan.

During these times, we were advising clients to focus on broker-of-record opportunities for obvious reasons. The index did not recover until September 2003, which proved to be the perfect storm — pent up demand, recovering stock market, the start of the

Retirement

traditional selling season and the mutual fund scandals which caused sponsors of tainted providers to go to market in droves but also raised concerns among all sponsors about their fiduciary duty to investigate.

The run started in September 2003 and lasted until December 2005 with highs of 10%, which was also fueled by provider consolidation.

Since December 2005, the index has declined, sometimes not slowly. Sponsors have become less willing to change record keepers as many of the pretenders were forced to sell and exit the market. Satisfaction with service increased, more funds were available on the menu and no provider could create a service or feature that increased market share without almost everyone else following behind very quickly.

Changing record keepers feels like a root canal to sponsors, while changing advisers is more like a teeth cleaning — relatively painless with no discernible change except for the better.

With the passage of the 2006 Pension Protection Act, more plans were comfortable going on auto pilot with participation, deferral and eventually investments preset (think QDIA), which further commoditized the 401(k) record keeping landscape.

As the stock market started its collapse in 2008, highlighted by October's crescendo, sponsors were immobilized. The fear being that to be out of the market during a conversion and blackout period — even for a brief period — could mean significant losses. No one was making any decisions.

Good advisers stood out

Yet, advisers with experience in the

Sponsor signals

It might take us a month or two to find just the right mix of both data and design, but we're thinking this is a good first step. Check out what the 401kExchange's opportunity index was saying in June about employers looking to change record keepers, advisers and fund options. Think this slice of the data doesn't cut it? E-mail *EBA* HQ (Robert.whiddon@sourcemediacom) and let us know what you think would be most meaningful.

2.93%

Actively searching/
thinking of chang-
ing record keepers
Year to date:
+0.26%

6.54%

Planning to revise/
add funds
YTD: +0.20%

8.94%

Considering adding
an independent
adviser
YTD: -1.0%

9.91%

Considering
changing
advisers
YTD: -1.22%

Source: 401kExchange.com

market were dramatically increasing their books of business. After the mutual fund scandals of September 2003, more sponsors were concerned about their fiduciary liability to keep fees reasonable and design the plan for the sole benefit of the participants. The lawsuits filed against record keepers starting in 2005 fueled this need as well.

Advisers that can not only reduce fees and create a prudent process but also help participants are in great demand right now and will continue to thrive in this market.

But the market collapse in 2008 added another twist — the blind squirrels who account for as much as 80% of adviser-sold plans went into hiding as they dealt with irate individual clients and rarely called their 401(k) plan sponsors.

With the door wide open, experienced advisers stepped in and gathered even more

plans. Meanwhile, the percentage of plans that used an adviser in the under \$100 million market grew from 70% to over 80% in a one year period. Clearly, there was a flight to quality and a huge opportunity for focused and experienced retirement advisers.

Looking at the first two quarters of the year, less than 3% of plans in

the micro (<\$1 million), small (\$1-\$10 million) and mid (\$10-\$100 million) markets are likely to change record keepers. Meanwhile, more than 10% of plans were looking for a new adviser, and even a higher percentage of those without an adviser were looking to hire one. In June, there was the first sign of light for record keepers with almost 6% of mid-market sponsors likely to change compared to less than 2% in May.

There is a great appetite among plan sponsors to meet with and hire an experienced retirement advisers who not only help contain costs, limit liability and work, but also help participants answer tough questions about their ability to retire successfully.

Advisers that can not only reduce fees and create a prudent process but also help participants are in great demand right now and will continue to thrive in this market.

Meanwhile, as the inevitable consolidation of record keepers unfolds, providers with solid books of business and supportive parent corporations will also succeed. Although for the first half of 2009, sales have been slow, the pace should pick up in the second half as the market stabilizes. **EBA**

Barstein, president of 401kExchange.com, can be reached at fbarstein@401kexchange.com.

Defined contribution plan news not all bad

BY LYDELL C. BRIDGEFORD

Retirement plan advisers and experts rolled into Washington, D.C. in June to reflect on how the defined-contribution plan space is holding up in a tough economy and against criticism that qualified retirement plans, such as 401(k)s, are ineffective savings tools.

The 2009 SPARK National Conference, sponsored by the Society of Professional Asset-Managers and Record Keepers, provided a glimpse into some economic and regulatory forces shaping the retirement plan market.

“It’s time to bring back a reality check to the process of regulating retirement plans,” said Charlie Nelson, president of Great-West Retirement Service and chairman of the SPARK Institute, the lobbying arm of SPARK.

For plan sponsors, the event — attended by about 200 industry insiders — boiled down to hearing some recent financial data and regulatory developments on qualified retirement plans and research on DC investor behavior.

By mid-year 2009, SPARK research showed that the retirement plan market held about \$13.2 in trillion assets, with \$4.5 trillion in individual accounts, \$4.3 trillion in employer-based defined benefit plans and \$4.2 trillion in employer-based defined contribution plans.

After fairly significant declines in 2008, the retirement plan market did show some positive growth during the first six months of 2009, said Bob Wuelfing, president of SPARK.

“Our projections show that the total retirement plan market grew about 4.3%,” he added.

The largest growth appeared in the IRA market, which grew by 6% and represents about 30% of the retirement plan market, outpacing the DC plan market.

Wuelfing explained that 401(k)

rollovers are funding the growth in IRA accounts.

Despite the mid-year 2009 numbers, the extreme market volatility of 2008 did diminish retirement plan assets levels. By the end of 2008, retirement plan assets totaled \$12.6 trillion, down by 19% from the record levels in 2007, according to SPARK. DC plan assets dropped 18% to \$8.4 trillion from \$10.2 trillion in 2007. Total assets in DC plans in the public sector declined almost 19% to \$545 billion.

However, the total number of 401(k) plans on the market increased by more than 20,000 in 2008 and more than five million participants were added, an increase of 7.6%.

Wuelfing noted that the uptick in participants can be attributed, in part, to more employers using automatic enrollment and other auto features with their 401(k) plans.

Studying participants

Dr. Sarah Holden, senior director of retirement and investor research at the Investment Company Institute, told attendees at the Washington, D.C. event that 70% of U.S. households have an IRA account and/or an employer-sponsored retirement plan.

ICI 2008 data show that nearly 32% of households have an IRA and an employer-sponsored retirement plan, 29% have an employer-sponsored retirement plan, and 9% have an IRA. The flipside of the research, which covered 116.8 million U.S. households, is that 30% of American households do not have an IRA or an employer-sponsored retirement plan.

Holden also explained that the population does not dramatically decline after the Baby Boom Generation.

“Although the boomers are a big part of our population, plan sponsors and services providers shouldn’t lose sight

of younger generations coming behind the boomers,” she said. “There is an echo boom.”

While employer plan sponsors and service providers are focusing on older individuals by addressing distribution issues, they also have to realize that Generation X and Y workers are entering into their prime savings stages, she noted.

Newly retired employees have no qualms about tapping into workplace resources to help them make decisions about reinvesting DC funds into other savings vehicles. Plan sponsors play an instrumental role in the process of workers researching options to reinvest DC funds — a trend that “concerns some plan services providers,” Holden observed.

The ICI economist offered up 2008 analysis showing that 46% of retirees tapped into resources provided by their employers, with 13% selecting a professional financial adviser through the workplace. Still, the 13% figure, which is low, probably reflects employer reluctance to offer the option because of fiduciary concerns, Holden said.

ICI research, which covered 608 households, shows that 18% of retirees annualized the entire DC plan balance, while 34% took the lump sum and reinvested the funds into other savings vehicles

SPARK, a Connecticut-based group that represents the retirement plan industry, also found that assets in 403(b) plans declined in 2008. For instance, assets totaled \$610 billion at year end 2008, 16% less than reported in 2007.

These plans tend to lean toward fixed-income and stable-value accounts, which represent about 40% of the portfolio. Educational institutions, such as colleges and universities, remain the big players in the market, holding nearly 50% of 403(b) assets. **EBA**

Communicate — don't regulate — target dates

BY ELIZABETH GALENTINE

Following the poor performance of target-date retirement funds in 2008 — Ibbotson Associates reports the average 2010 fund dropped 23% — a mid-June hearing sponsored by the Department of Labor and Securities and Exchange Commission gave voice to the growing debate on whether or not the funds should be subject to increased federal regulation.

Although panelists at the day-long hearing in the nation's capital generally agreed that additional disclosure and participant education would help to clear up confusion and remedy gaps in public understanding about target-date funds, many pointed out that a target-date fund is most attractive to an investor who does not want to be actively engaged in the management of the retirement fund. Target dates in particular have become an increasingly popular option for investors who are attracted by what SEC Chairwoman Mary Schapiro described as their “set it and forget it” nature.

The varied opinions on optimal asset allocation at the target date as well as glide path projections indicate there is no one-size-fits-all target-date fund, and many who testified insisted there is no need for the government to enact asset allocation mandates.

One common criticism of target-date funds is that they can vary widely even if two different funds are labeled with the same year, depending on the construction of asset allocations and equity exposure. “There is wide variation in the risk profiles of the target retirement date funds in the market place,” says Howard Biggs, managing director of retirement plan consulting for Arnerich Massena.

Some of the alarm surrounding the performance of 2010 funds comes from a lack of understanding on the part of participants and plan sponsors of their asset

allocation, says Charles Nelson, president of Great-West Retirement Services. “I think some plan sponsors in certain situations may not have had a thorough understanding of the glide path and the issues of really what they were investing in maybe as much as they should have,” he says.

It's up to all of the constituents involved in a target-date fund — the plan sponsor, adviser and participant — to have ownership in researching and understanding potential glide paths a particular fund can take and whether or not they will meet the demographic needs of the employer and investor, says Nelson. Areas to consider when choosing funds include employees' average age, tenure, income, company turnover rates and whether or not a defined benefit plan is also included. “Oftentimes I think plan sponsors and advisers just select based off returns, which can be a very narrow viewpoint of really what the target date's all about,” says Nelson.

Ever since the DOL approved target-date funds as a qualified default investment alternative in 2007, plan sponsors need to be aware that QDIA target-date funds are naturally going to be monitored less by employees, as they are not actively engaged in researching and choosing the investment funds. “It would be a common expectation that participants who are defaulted into target retirement date funds through a QDIA would be less active or engaged investors and are relying on the product to appropriately manage their risk,” says Biggs.

Even so, it remains the responsibility of the plan sponsor to communicate the risk profile and glide path to em-

ployee participants through comprehensive education programs that include product literature and educational seminars available either electronically or in person.

As for introducing new target-date regulations, Nelson says it's not necessary because the SEC and Financial Indus-

try Regulatory Authority already provide “plenty” of regulations to ensure plan information is clearly communicated. “Now unfortunately, I think sometimes participants and plan sponsors don't take the time to read the material available to them as thoroughly as maybe all

of us hope and believe that they should,” he adds.

Advisers may be able to help overcome this behavioral obstacle, Nelson says, by simplifying the key points and more salient issues involved with target-date funds. Biggs believes target-date funds will continue to be a useful retirement savings tool and wouldn't be surprised to see more regulations develop around QDIA safe harbor requirements. “It makes sense that there would be some limitation around the upper end risk levels for target retirement date funds within the QDIA construct,” he says.

Like any other type of investment, Biggs adds, “I don't expect the products themselves to be regulated in such a way to eliminate market risk. But it may make sense in providing QDIA safe harbor structures to place some limitations on the risk profiles or upper-end equity exposure of target retirement date funds to mitigate or protect against large losses as participants near retirement,” he says.

EBA

Additional reporting by Kristine Palmieri.

PODCAST

On eba.benefitnews.com/podcasts Great-West's Charlie Nelson shares how new target-date funds address critics' concerns without the need for more regulation.



First thing's first

IT'S NOT SURPRISING that many in employee benefit sales still insist that communication is the cornerstone of success. What is interesting is how far upstream advisers should go in order to make sure communications flow smoothly and profitably — for employer, employee and you, the employee benefits sales professional. That's just some of the advice gleaned from a recent Baltimore roundtable *EB&A* convened to discuss the issues and trends shaping the industry.

As the eyes and ears of more and more employee benefits sales professionals turn toward Washington for some kind of indication of what the future holds, it becomes increasingly important to give some thought and attention to alternative strategies and tactics for driving revenue for you and your firm.

Voluntary benefits are no longer a secret.

As health care costs have escalated over the last decade,

it's been an obvious decision for many employers to reduce ancillary line funding, diverting those dollars to help keep a company's major medical plan in force and within reach of their employers.

That said, the method by which employers have tapped the voluntary market hasn't always made a lot of sense in the context of their goals and objectives.

Communication has been sorely lacking. But it's not just employee communications

