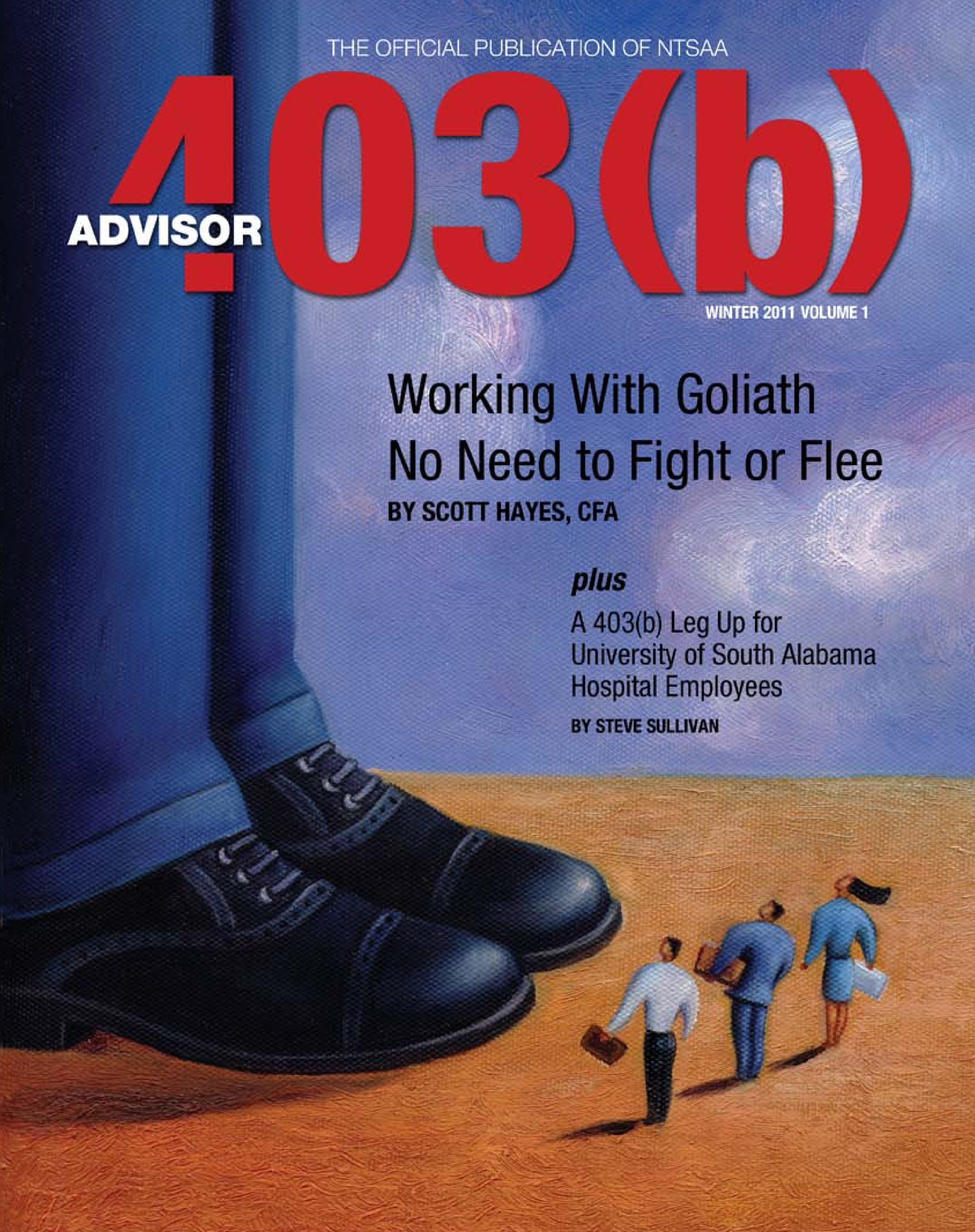

THE OFFICIAL PUBLICATION OF NTSAA
ADVISOR
403(b)
WINTER 2011 VOLUME 1
Working With Goliath
No Need to Fight or Flee
BY SCOTT HAYES, CFA
plus
A 403(b) Leg Up for
University of South Alabama
Hospital Employees
BY STEVE SULLIVAN

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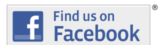

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ADVANCE LOOK

A DIFFERENCE THAT COUNTS

By Steve Sullivan

Back in 1973 when I was teaching English in Upstate New York, a guy sold me something called a tax-sheltered annuity. He was nice enough, very young and very slick. I had the feeling he could have been selling used cars as easily as financial products.

I barely understood what I was buying, but I signed the papers and forgot about it. Soon, my already meager paycheck was reduced every two weeks by the premium and I was saving for retirement.

Three years later, when I left teaching, I cashed out the annuity and used the proceeds as the down payment for our first home. I doubt the guy who sold it to me knew about it at the time — if he was even still in the business.

Now things are different. Today that annuity would be a variety of investment options in a 403(b) plan and the guy would have been an advisor rather than just a salesman. He probably would have called me when he found out I was leaving the teaching profession. He would have advised me not to cash in my retirement account, but to roll it over into an IRA. He would have helped me make a more informed decision, and at least have tried to help me do the right thing.
I know he didn't have an organization like NTSAA to remind him of his responsibilities as an advisor, and he probably didn't have a magazine like *403(b) Advisor* to help make his job easier.

But you do. *403(b) Advisor* is intended to help you improve your skills, enhance your knowledge, and conduct your business in way that's professional, ethical, efficient, creative, and profitable. The articles, written by experienced retirement planning professionals, will provide timeless and practical how-to ideas you can use in your own practices. They'll be readable, concise, accessible, and inspirational.

Regular columns and departments will cover latest industry trends, relevant legislation and regulation, navigation through ethical dilemmas, mining the Internal Revenue Code for sales ideas, and adding extra value to your service, among other topics.

Feature articles will take you into actual plans and sponsors to see how they work and what lessons you can learn from them.

The *403(b) Advisor* editorial committee (Chris DeGrassi, Susan Diehl, Kimberly Flett, Richard Ford, Mark Griffin, Scott Hayes, Frank Owen, and Keith Young) has worked hard on the planning and execution of what you hold in your hands. I hope you'll respond with interest and enthusiasm.

I hope you'll write us letters, especially when you don't agree with us.

I hope you'll be inspired to write an article yourself, or respond with an idea that we can turn into an article. (All are welcome and encouraged to submit at **stevensullivan08@comcast.net**.)

Most of all, I hope you'll use the ideas and advice in the magazine to help your clients through the bewildering maze of modern retirement planning; to make sure their decisions are in their long-term best interests and not for their (or your) short-term gratification.

Ultimately, *403(b) Advisor* is a magazine about you, the value you provide, and difference between being just a sales person and being ... an advisor.

Steven Sullivan is the editor of 403(b) Advisor Magazine.

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OUTLOOK ON THE NEW TERRAIN

By Chris Degrassi

Last year saw major changes in the 403(b) landscape. The challenge is to chart the course ahead.

It happens every afternoon. At just about 2:30 or so, the day's headlines and breaking news alerts start popping into my Outlook inbox. As the number of unread messages begins to climb well into the double digits, I know it's time to take a deep breath and start weeding through the day's news.

Scanning the subject lines, I learn of the proposed increase in Social Security retirement age that will force people to work until they're 70. I read on to find that another state pension plan reports being underfunded, and changes must be made. The next newsflash reads, "SEC leaning toward one fiduciary standard" and below that is a headline announcing that the DOL has released final fee disclosure regulations for retirement plans.

Scrolling further down the screen I'm confronted with the pressing question: Are 12(b)1 fees really headed for extinction? I see that there's another lawsuit over excessive fees in retirement plans. And what exactly is the impact of changes to Form Adv Part II?

Having read enough I close Outlook and take another deep breath, pause to remember how I felt after that relaxing long run I enjoyed so much just last weekend, and think... It's a great time to be a financial advisor.

Three things are very clear to me after reading the day's news. First, personal investment and savings will become a more important part of the U.S. retirement system. Second, while it's anybody's guess as to which of the myriad proposed rules and regulations will finally become the law of the land, the increased importance of personal retirement savings will doubtless bring with it additional oversight and regulation. Third, it will be up to financial advisors to guide the American public through these changes.

Thanks to the IRS and its tightened administrative requirements for 403(b) and 457 plans, plan sponsors now need to get more involved than ever before. That's great news for advisors. Sponsors need us just to help deal more effectively in this new environment.

THE SHORT FORM

- Personal investment and savings will become a more important part of the U.S. retirement system.
- That increased importance will bring additional oversight and regulation.
- Financial advisors will have to guide the American public through these changes.

Most of the major, truly tectonic change, is probably over. The new landscape has been created. Now the challenge is to learn how to navigate through it, and deal with the many aftershocks that are bound to follow as the plates shift into place and the land settles. Advisors will increasingly have to learn how to deal with plan sponsors as well as individual clients. They're going to have to struggle with a new definition of "fiduciary." They'll have to recognize the role of TPAs and learn exactly which services they provide and which they don't.

As compliance issues change and evolve, pools of ethical quicksand are sure to form, ready to trap any advisors who are quick to ignore their compass and slow to educate themselves about the new terrain.

This is the inaugural issue of *403(b) Advisor* magazine. *403(b) Advisor* is the result of the vision, dedication and hard work of NTSAA members who understand that professional financial advisors make an important difference every day in the lives of millions of Americans. I'm grateful for the energy and talents of all who contributed to bring this magazine to life.

On behalf of the *403(b) Advisor* editorial board, I hope this magazine will become a valuable resource that will help financial professionals grow their business and meet the ever changing needs of their clients. I hope that you'll close your Outlook after reading the day's headlines and open *403(b) Advisor* to Trend Spotting for valuable insight into the future of your practice.

And I hope that you can smile, take a long run and think… it's a great time to be a financial advisor.

Chris DeGrassi is assistant vice president, education market, with the Security Benefit in Topeka, Kan. He is also president of NTSAA.

403(b)
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GOVERNMENT IMPACT

FISCAL DISCIPLINE, WHAT IT MEANS FOR RETIREMENT SAVINGS

By Brian Graff

The current Congressional push to reduce government spending and the climate of partisan polarity may have mixed results for retirement planners.

It's a new year and a new Congress. November saw huge Republican gains in all sectors throughout the country, the biggest increase in the House in more than 60 years. Now, with a smaller Democratic majority in the Senate, what are the prospects for retirement policy legislation on the Hill?

It's probably too soon to tell, but there is some reason for optimism. Retirement issues, unlike other issues too numerous to enumerate lately, have traditionally been handled in a bipartisan manner. The Pension Protection Act passed the Senate in 2006 with more than 90 votes, so it's conceivable both sides could use these issues as a bridge to demonstrate the capacity to compromise in the new Congress.

Much will certainly depend on the willingness of both sides to work together. The lame duck Congress at the close of 2010 certainly demonstrated a remarkable and unexpected ability to compromise that had been missing until then. The extension of the Bush tax cuts, the repeal of Don't Ask, Don't Tell, the passage of the START treaty and the first-responders compensation package, all show what Congress and the administration can do when bipartisan issues take a back seat. Neither side got exactly what it wanted, which is the exact nature of compromise.

LIMIT INCREASE UNLIKELY

An encouraging development is the return of the Portman-Cardin alliance with the election of Rob Portman to the Senate. In 2003, the Portman-Cardin bill increased the allowable contribution limits for 401(k)s and IRAs. Given the pressing need to demonstrate bipartisanship, we could see them playing an active role again, regardless of whether they're on the relevant committees of jurisdiction.

But given the current fiscal climate, it's unlikely we'll see any further increase in limits, at least in the near future. Many of the new Republicans ran on a platform of fiscal discipline, so any new proposals that add to the cost of government will face an even higher hurdle than before. Policymakers have questioned the

THE SHORT FORM

- Republicans have gained control of the House, narrowed Democratic majority in Senate.
- Portman-Cardin alliance may bode well for bipartisan cooperation.
- Current fiscal climate makes increases in benefit limits unlikely.
- Proposal to eliminate the tax incentives for retirement savings based on incorrect assumptions.
- ASPPA/NTSAA study will evaluate real cost of retirement savings incentives.
- Fiscal discipline trend may affect non-profits' funding and their ability to sponsor retirement plans.

effectiveness of the tax expenditures associated with retirement savings, which is more likely to lead to proposals to cut back contribution limits rather than increase them. In fact, "Option 1" of the draft report issued by President Obama's Deficit Reduction Commission included a proposal to completely eliminate the tax incentives for retirement savings, including the deduction for contributions to 403(b) and 457.

The policymakers who question the effectiveness of the current retirement savings incentives simply don't get it. To begin with, they don't even have the true cost correct. The analysis, done by the Treasury Department and the Joint Committee on Taxation, treats retirement saving incentives as exclusions (like the mortgage interest deduction) rather than as deferrals. In other words, they ignore the fact that unlike other tax deductions, the tax incentives for retirement savings get paid back when distributions are made. ASPPA/NTSAA has commissioned a study to evaluate the real cost of retirement savings incentives, which we expect to be substantially less than what the government reports.

We've also begun a series of meetings with all the key lawmakers on Capitol Hill to remind them of the critical importance of these retirement savings incentives to our nation's economy. Employer-based savings programs have been the only effective means by which we've gotten working Americans to save. The convenience of payroll deduction and the culture of savings that's fostered in the workplace can't be underestimated. Can you imagine what the savings rates of teachers and other non-profit workers would be without these programs?

STAY CURRENT

The trend toward fiscal discipline may have yet another unanticipated consequence, particularly unwelcome in the 403(b)/457 market. With everything on the budget block, social services, entitlements, health care, cultural institutions, even education will be particularly vulnerable to the axe. This could have a negative impact on the non-profits that depend on government funding, especially when they're already suffering in the down economy.

As advisors and TPAs search for new business, they may also find themselves in the unenviable position of trying to dissuade longtime clients from terminating or cutting back on their plans. So it's even more important now for NTSAA members to emphasize the importance of these programs and to stay current on what's happening in Washington.

Brian Graff is executive director and CEO of the American Society of Pension Professionals and Actuaries in Arlington, VA.

EDUCATING THE EDUCATORS

By Jody Detillier, TGPC

Focus on the hows and whys of retirement rather than on product.

There's a crucial difference that sets the Sonny Detillier Agency financial advisors apart from its competitors in the school systems we serve. It's the difference between education and a sales pitch.

When I'm talking to teachers, I spend more time educating them about their state pension plan, the Teachers Retirement System of Louisiana (TRSL), than I do talking about the optional 403(b) products and services we provide. When can they retire? How will the state calculate their retirement benefit? When might be the most appropriate time for them to retire? Why is it important that they plan for their retirement?

I'm not compensated for advising clients about TRSL. That's why I think I earn the term "advisor" rather than "salesperson." I'm educating them about how to make the most appropriate decision. The more they understand what the state pension plan does for them, the more they realize that it won't be enough, which opens the opportunity for a potential 403(b) sale.

GETTING THE DROP ON ASSETS

The Louisiana teachers retirement system features a Deferred Retirement Option Plan or DROP program. Eligible TRSL members may choose to delay receiving their regular retirement benefit and have that benefit deposited in a special account at TRSL, while working up to three extra years and drawing a salary from a TRSL-reporting agency or school. Although participating in the DROP program is not right for everyone, those who do participate are left with a big decision: what to do with this lump sum.

To help them with this decision, I've developed a PowerPoint presentation to use with groups and individuals. It starts by outlining some of the recent changes to the DROP program and compares their options – either leaving the money with the state or rolling their assets over into a 403(b) or IRA.

I show them a hypothetical investment scenario, illustrating a typical diversified portfolio at one point in time, followed by what it might look like six months later. I raise the question: What do you do now? You could leave your portfolio as is and do nothing, and this is what it would look like. But if you decide to make adjustments, what do you sell? What do you buy? We talk about the problems of doing nothing and actually take a look at the impact their decisions might have on the hypothetical portfolio.

This naturally leads to a discussion of common mistakes investors make when they let their emotions control their decisions. The most common mistake, of course, is selling low and buying high. I explain how to help avoid this by using a disciplined approach to investing and how the concept of automatic asset rebalancing in a 403(b) product works. Although automatic asset rebalancing has been around for years, I find that showing this concept visually does wonders in helping the client understand the true value of this process. Using pie charts, I illustrate how different the results can be between emotional investing and automatic asset rebalancing and how easy it is to make the wrong moves.

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THE SHORT FORM

- Be an advisor, not a salesperson.
- Know all the ins and outs of your state's retirement system.
- Disclose compensation.
- Keep the focus on education, not sales.

THE WALMART APPROACH

Another value I provide clients and prospects is explaining the different types of products, not only how they work but also how the different products compensate me. We talk about products that pay commissions versus products that pay fees and also the ones that pay both. I do that for one reason: There are some products out there that really favor the representative more than the client by paying large upfront commissions. They may earn me a bigger pay check, but the product may not be a good fit for their situation. Once they see that my fee income is tied to the success of their portfolio, they appreciate what I do for them and understand how and why I'm compensated for the value I provide. Sharing that information with my client puts us on the same side of the fence and helps eliminate any conflicts of interest.

I call it the WalMart approach. By selling products that offer lower compensation to me, but more benefits to the client, I'm ultimately better compensated by gaining referrals and repeat business. WalMart cuts their prices and lowers their profit margins on specific items, which makes people tend to come back and buy more. I have a very good track record for maintaining clients.

We work with eight different school boards in south Louisiana, and we have to get permission from the head of the school system to conduct seminars at each school. Sometimes they're voluntary meetings, sometimes they're mandatory. At those meetings we spend the majority of time talking about the state retirement system and general reasons why they need to plan for retirement, not about our companies and not about our products. When we do talk about 403(b)s, we talk about them generically.

By keeping it totally educational, we get a lot more cooperation from and access to the school systems. We're able to do that only because we're not giving them a sales talk. We're educating the educators.

Jody Detillier, TGPC, is a principal with the Sonny Detillier Agency in Lutcher, LA

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THERE'S GOLD IN THE CODE!

BY ELLIE LOWDER, TGPC

You can use the Internal Revenue Code to save your sponsors money.

The Internal Revenue Code is full of opportunities that can lead to sales. One of the greatest, especially in this current trying economic environment, lies in the change made to Sec. 403(b)(3) that became effective on January 1, 2002.

The new wording defines includible compensation as "the amount of compensation received from the employer... for the most recent period... which may be counted as one year of service and which precedes the taxable year by no more than five years."

Quite simply, this means that for employees who have severed employment, employers are permitted to make non-elective (employer) contributions for up to five tax years following the tax year that employment ceased. From this definition we understand that:

- Public education employers can use post-employment contributions to replace more expensive compensation because employer contributions to a 403(b) plan are NOT subject to Social Security, Medicare, or other payroll taxes, while compensation is subject to those taxes. Nor, in most cases are employer contributions subject to fringe benefit payments, unlike compensation.
- Instead of paying unused leave pay as compensation at retirement, employers can, instead, pay the equivalent of those amounts as employer contributions to the 403(b) plan from one to five years following the year of retirement.
- Instead of paying cash amounts as an incentive for long-term employees to retire, the employer may now use employer contributions to provide that incentive.
- Instead of paying a large lump sum to a terminated superintendent, college administrator, or coach to buyout the remaining contract, employers can make post-employment contributions to his or her 403(b).

All of these possibilities will, in fact, reduce expenditures for the employer at a time when public education budgets are under unparalleled pressure.

Because public education employers are exempt from Title I of the Employee Retirement Income Security Act (ERISA), and from nondiscrimination rules (whatsoever) for employer contributions this serves as a relatively simple undertaking for these employers. Employers looking to establish a post-employment contribution plan should consider:

- The written plan (document) must contain language that permits employer contributions.
- The employer should have legal counsel check state or local statutes to be sure there are no employer contribution prohibitions to the making of employer contributions. (Usually, there aren't, but it should be confirmed.)
- The employer should NOT give

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THE SHORT FORM

- Help your clients with creative ways to establish a post-employment contribution plan.
- Involve employee unions where appropriate.
- Focus on the multiple year impacts of a single sale.

employees a cash option. The written administrative language describing the employer contribution should clearly state that NO cash option is allowed.

- A one-time calculation should be performed to be sure that the post-employment employer contributions don't exceed the available limit of Sec. 415(c), namely the lesser of 100 percent of includible compensation or $49,000 in 2010, indexed in $1,000 increments. Remember that includible compensation is the amount earned with this employer during the most recent period that adds up to one full year of service. (For a mid-year retiree, for example, you would look back to the previous tax year to arrive at a full 12-month period of service). For individuals exceeding $49,000 in includible compensation, the employer is permitted to contribute $49,000 per year for up to five tax years post-employment.

Be sure to also involve the employees' unions if post-employment contributions are being made for union members. If the intention is to buy out a key employee's contract, ask the employer's legal counsel to review the language in that employee's individual contract and amend if necessary.

Finally, focus on the multiple year impacts of a single sale. One agent, who regularly contacts me with his thanks each year in the late spring, reports he has just picked up another check for $350,000 from one of his public school district clients from a case I had helped him set up several years ago. And, he tells me "once the first five years of contributions have been completed, the new 5-year periods of contributions will have completely filled in since this district is repeating the employer contributions as each new group of retirees leaves the district."

Ellie Lowder, TGPC, is a consultant with TSA Training & Consulting Services in Tucson, Ariz.

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A 403(b) LEG UP FOR UNIVERSITY OF SOUTH ALABAMA HOSPITAL EMPLOYEES

The University of South Alabama Hospital gets competitive with a new 403(b) plan.

By Steve Sullivan

“Without question, public and private defined benefit pensions are in trouble.”

Most Americans look forward to retiring on a beach or front porch somewhere, feet propped comfortably on that proverbial three-legged stool: private or public pension, Social Security, and personal savings. But for many, the first of those legs is either wobbly or absent. And trying to relax on a two-legged stool can be tricky.

Without question, public and private defined benefit pensions are in trouble. All across the country, generous benefits negotiated in flusher times are now threatening to bankrupt not only the plans themselves, but the companies and governments that sponsor them.

“In the late 1960s, six in every 10 Americans were covered by a pension plan,” writes Roger Lowenstein in his book, *While America Aged: How Pension Debts Ruined General Motors, Stopped the NYC Subways, Bankrupted San Diego and Loom as the Next Financial Crisis.* Now, says the Pension Benefit Guaranty Corp., only 18 percent are covered by pensions and a third of the workforce has no retirement savings at all.

In Alabama, state and education employees are covered by the Retirement Systems of Alabama (RSA). This includes the 2,400 employees of the University of South Alabama (USA) Hospitals. According to the *Birmingham Business Journal,* the Pew Center on the States reports that in 2008, the RSA had a total liability of $40.2 billion and $31 billion in assets. That’s an unfunded liability of $9.2 billion, which has to be made up, at least in part, by increasing contributions from employers.

Actuaries determine how much employers need to contribute each year in order to keep the system solvent. About a year ago, when hospital administrators saw their own contribution to the system reach 12.5 percent of earnings, they decided it was time to try something else.

“We made the case that the hospital system was fundamentally different from the regular university operations,” says USA spokesman Keith Ayers. “And if we were to be competitive with other hospitals, we needed to have a similar pension plan. Most of the hospitals in our area have 403(b) plans with a match.”

VOLUNTARY, FAIR AND EQUITABLE

Hospital administrators worked with TIAA-CREF, which was already providing voluntary retirement programs for university employees, to set up the 403(b) plan under the new rules. The first step was to establish a separate management company, a limited liability corporation, which will sponsor the 403(b). As of Oct. 1, 2010, all new hospital employees will work for the LLC. They’ll no

THE SHORT FORM

- USA Hospital established a separate management company (an LLC) to sponsor the 403(b).
- As of Oct. 1, 2010, all new hospital employees work for the LLC.
- No longer part of the RSA
- Receive up to a 5 percent employer match.
- Existing employees had to wait until Jan. 1, 2011 to make the switch but choice was voluntary.
- Initial savings about $3 million a year, rising to $15 million.
- Brokerage window allows other investments.
- Communication to employees is key.

longer be part of the RSA but they will receive up to a 5 percent employer match in their 403(b) plans.

Existing hospital employees had to wait until Jan. 1, 2011 to make the switch, but the choice was left entirely up to them.

"Instead of forcing people to change, I wanted to do it in a voluntary manner," says Stan Hammack, USA's vice president for health systems. "We probably could have saved a little more money by forcing everyone up front but we wanted to be fair and equitable to existing employees. Consequently, it's been a very smooth, seamless transition with the least disruption to employee morale."

Switching to the new 403(b) is attractive to employees who know they probably won't be around long enough to benefit from the RSA's 10-year vesting requirement. It will take them only three years to be fully vested in the 403(b), and they'll be able to take it with them wherever they go.

The team of administrators who will operate the new LLC has already voluntarily made the switch to the 403(b), but for a different reason. Most of them are eligible to retire under the state retirement system. Normally, under RSA, working after retirement would bind them to a $22,000 earnings cap. But because the new LLC isn't a member of RSA, they can draw their state retirement benefit and continue to work for the LLC without any limitation of earnings.

Hammack estimates that savings will accrue over time – initially about $3 million a year and rising to $15 million when fully implemented.

SIZE MATTERS

Associate Director of Human Resources Gerald Gattis decided to stick with TIAA-CREF because they already covered university employees. "They're huge and they specialize in educators and medical types," says Gattis. "We also put in the TIAA-CREF brokerage option, which allows employees to invest with other companies – Vanguard, Fidelity, T. Rowe Price, Black Rock Funds, Prudential, Wells Fargo, etc."

Allyson Ray, the individual TIAA-CREF consultant currently working with the university, will continue providing education and enrollment support for participants in the 403(b).

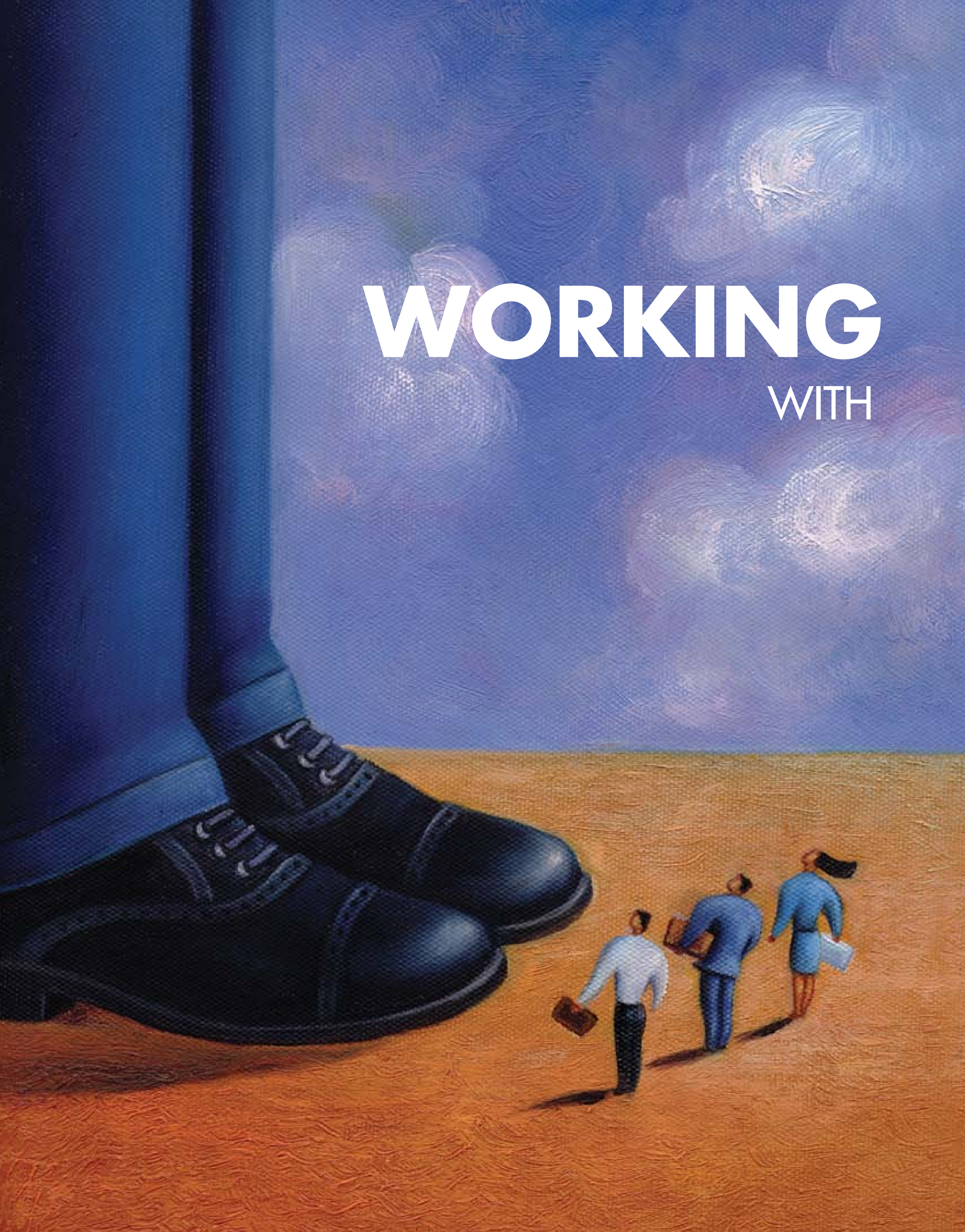
"We won't change the way we interact with the employees at USA Hospitals," says Ray. "They'll still have the same questions about whether they're saving the right amount for retirement, how should they be invested, how should their allocation change as they get closer to retirement."

She prefers to work individually about once or twice a year, depending on how close a person is to retirement. She uses a software program that runs a Monte Carlo simulation based on what clients are currently making and when they hope to retire and provides 500 different scenarios. She believes it enhances her objectivity in providing financial advice. "It basically answers the questions of whether they're on track, whether they need to save more, and how they should be invested," says Ray.

The intense campaign of communication with employees, begun even before the plan went into effect, will continue. "Once you start it," observes Stan Hammack, "you do it forever."

Steven Sullivan is the editor of 403(b) Advisor Magazine.

The Children's and Women's Hospital at the University of South Alabama.


WORKING
WITH

GOLIATH

How can small and independent producers adapt to a new era of fewer vendor options that is increasingly dominated by the big company providers?

By Scott Hayes, CFA

> "The transition from a commission-based practice to a fee-based practice can be difficult, especially for younger advisors who don't have large books of business."

The competitive landscape in the 403(b) marketplace has evolved considerably over the past several years, and the rate of change has accelerated since the 403(b) regulations were finalized in 2008. During that time, I've witnessed the migration of our industry from a largely open-access system with multiple product providers and participation driven by sales professionals (independents and captive agents), toward a top-down, employer-directed model with fewer approved providers and, therefore, fewer conventional opportunities for the 403(b) practitioner.

The extreme example of this occurs when a large employer chooses one or two big-company providers to the detriment of all other providers in that system (see previous story on South Alabama Hospitals) and, most important, the participant. This can be devastating to your practice if you have historically made your living by working with participants in a system where you essentially become "locked out" because the vendors that you use are suddenly no longer available.

My firm has been coping with this vendor contraction since 1998 when the University of Texas (UT), the state's largest employer, reduced the number of providers for their Optional Retirement Plan to eight (and then later to six) and eliminated all of the carriers that our independent advisors were able to use at the time.

So how do we adapt to this whole new world (which happens to be the 2011 NTSAA Conference theme) and not only survive, but actually grow our practices? Advisors clearly play an important role in the 403(b) industry by providing the education and advice that participants require in order to make an important decision: to voluntarily reduce their spendable income today in order to build a retirement nest egg for tomorrow, and to invest that savings in a manner appropriate with their individual goals and risk tolerance.

The answer — at least the answer that has worked in my practice — requires a fundamental change in the way we approach the market. In my company, we had to move beyond the transactional, product-driven sale into a fee-based investment advisory framework. Rather than walking into a sales appointment with recommended product in hand, we began sitting on the same side of the table with our clients and advising them on what to do given the choices their employer had

made for them.

The transition from a commission-based practice to a fee-based practice can be difficult, especially for younger advisors who don't have large books of business. It can be equally daunting for more seasoned reps who have spent their entire careers in a product-driven, commission transaction marketplace.

The financial services industry as a whole is migrating toward the registered investment advisor (RIA) model, and I recommend that anyone who intends to be in the financial services profession 10 years from now start learning the difference between the two models now and make a plan to gradually move toward the RIA model. Full fee disclosure, a potential fiduciary standard for everyone, intense regulatory pressures, and the potential repeal of Rule 12b-1 are just some of the recent drivers accelerating this paradigm shift.

When we lost the payroll slot our reps had used for years at the University of Texas and elsewhere, we began advising our clients and managing their assets on Fidelity's platform. In larger employer plans such as UT, Fidelity offers a platform called "BrokerageLink" that allows our advisors to choose from thousands of no-load and load-waived mutual funds for their clients. The clients sign a trading authorization form, engage us in an investment advisory capacity, and we then have access to Fidelity's system to manage their accounts for advisory fees on a regular basis. Some of our reps manage the accounts directly, others use our proprietary managed models and some use third-party investment advisors such as CLS or Morningstar.

Today, our advisor representatives work with the majority of the big–company 403(b) providers, including Fidelity, TIAA-CREF, ING, MetLife and AIG/VALIC, as all of these are now open to the independent channel in some varying degrees. We've had success working with these companies not only in plans where we have existing relationships, but also in new venues where we never would have had a chance before.

One of my reps, for example, has a wife who worked for a large hospital where Charles Schwab was the sole provider for their 403(b) plan. She was able to get us a meeting with the decision-makers, but we weren't able to persuade them to add another vendor to their plan. Rather than give up and move on to another prospect, we figured out how to work with Schwab and we were able to get set up to work with participants individually under advisory agreements.

While some educators, hospital workers and other non-profit employees know how much they need to save and are comfortable in making their own asset allocation decisions, many more value the education and advice we offer and they're willing to pay for it. If we're successful in increasing participation and in helping our clients establish and reach their goals, everyone benefits — the participant, the employer, the advisor and the product provider.

The big product providers either know this or they're learning. More than 35 percent of Fidelity's revenues now arrive through advisors while only constituting 5 percent of their workforce. They've certainly seen the value of advisors to their business model. The takeaway is that we don't have to invoke a "fight or flight" attitude with the giants. We provide the education, advice and face-to-face services that they either can't or don't want to do themselves, and they recognize the value and the assets we can bring to them.

But what happens to the small accounts under this model? We're in business to make a profit, after all, and a school teacher saving $50 per month in her TSA can require as much or more time as the hospital administrator with a $500,000 IRA.

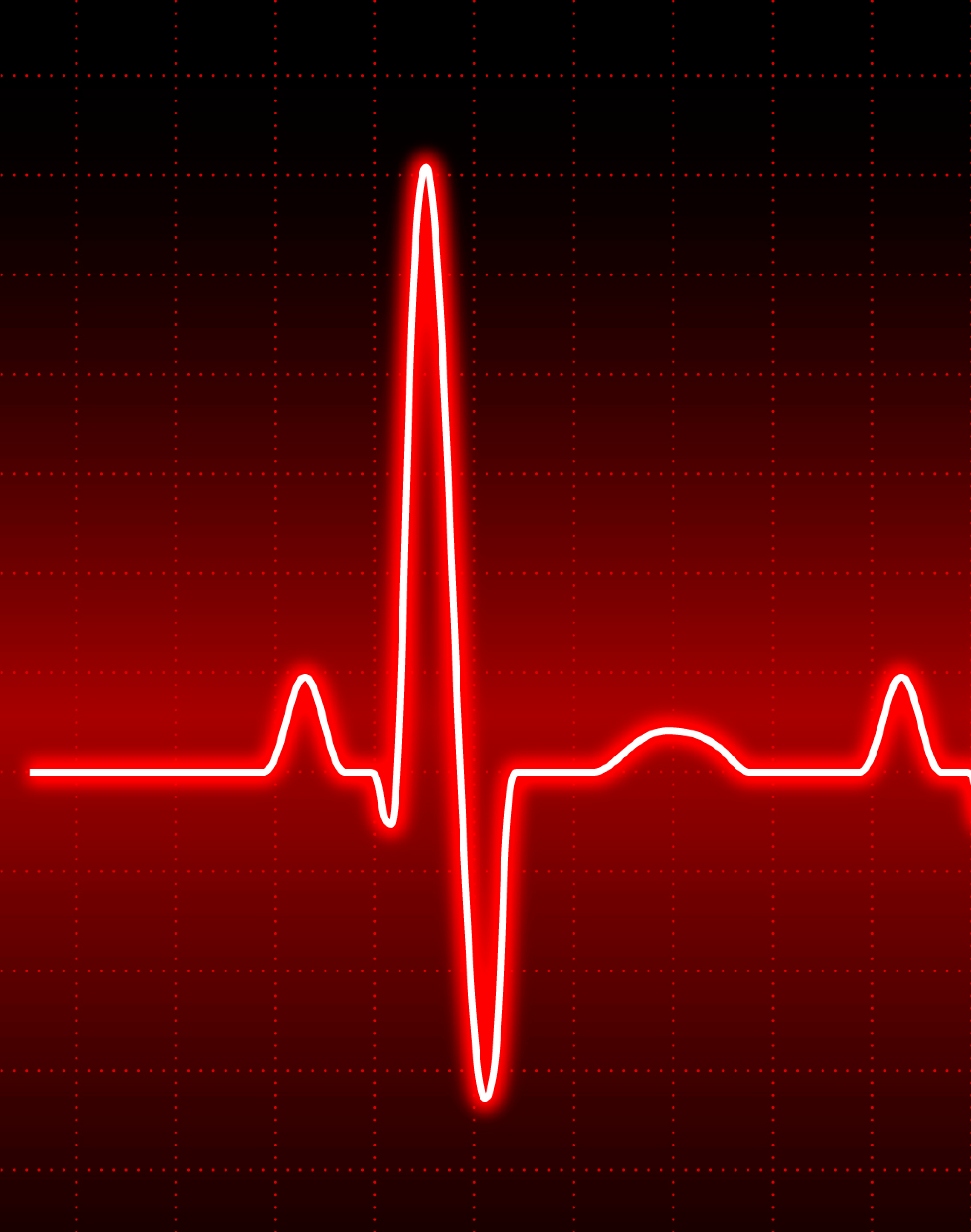
I believe there are many possible answers here that don't involve stepping over the smaller accounts on the hunt for larger ones. If you're a seasoned professional with an established practice, consider bringing on a junior advisor to work the lower end (in assets) of your book and to mine prospects. You never know when they'll uncover assets that you didn't know about. If you're a newer advisor, open all of the accounts you can regardless of size — you need the experience and you'll hone your skills as you work your way up.

Other options we've used successfully and efficiently include group enrollment meetings and streamlined service offerings via actively managed model portfolios.

Change is inevitable. The financial services industry is a noble profession and there will always be demand for your services and your expertise no matter what the regulatory or economic environment. By helping your clients accumulate more money at retirement than they would have attained without your help, you're improving the standard of living for your clients and directly addressing the retirement income shortfall that many Americans will face because they didn't have the opportunity to work with you during their working lives.

You have to stay current on issues affecting our industry through resources such as NTSAA-ASPPA, make a deliberate decision to accept change as the norm and continue serving your clients in whatever capacity that dictates.

Scott Hayes, CFA, is executive vice president, chief investment officer and chief compliance officer at Institutional Securities Corporation (ISC) in Dallas, Texas. ISC is a full-service broker/dealer and registered investment advisor that specializes in offering retirement plan services to educators and non-profit employer groups across the country.



End of Life Decisions, End of Work Choices

Southwest Transplant Alliance attributes high participation rate to education and personal contact.

By Pam Silvestri

“From a personal standpoint, the 403(b) has given me another avenue to use for saving for my retirement.”

Southwest Transplant Alliance (STA) is one of 58 non-profit, federally designated national organ donation agencies. The scope of STA's responsibilities includes educating hospital personnel about the organ donation process, promoting organ donation to the public, offering the option of donation to families facing the loss of a loved one and managing the clinical process of matching donated organs with people in need of life-saving transplants.

While the death of a loved one always causes tremendous strife, we also know that money is one of the major issues in life that can cause the greatest stress if individuals haven't take the proper time to prepare for retirement. So Southwest Transplant Alliance and its employees are grateful to have a financial company that takes care of us the same way we like to take care of our donor families. We can always depend on the ISC Group to listen to our questions and handle our concerns with compassion and support.

In order to recruit and retain qualified staff, Southwest Transplant Alliance has included an ERISA 403(b) plan in its benefits package for many years. The plan covers approximately 85 employees, about five of whom are considered highly compensated under the plan. This is an incredibly high percentage (85.5 percent) for a voluntary plan, and I attribute that to the hands-on educational process the ISC Group has put in place.

While ISC group became the plan administrator only in the past few years, the company has been very helpful through the transition of assets and the difficult economic times. ISC Group representatives Vernon (Coby) Hood and Terry Hill not only come to the STA offices annually to enroll new employees, but they also visit regularly to make sure everyone at STA stays aware of their financial plan progress. In addition, the ISC Group also provides turnkey recordkeeping and administrative services, as well as enrollment/education/investment advisory services.

When I faced some life changes that were likely to affect my retirement planning, Coby Hood was right there to listen and help me understand all of the potential implications. Over time and through a lot of complex situations, Coby has become a valued colleague and a friend on whom I can rely.

ISC Group's outstanding products and services also help STA from a business standpoint. Participants can self-direct from over 70 no-load and load-waived mutual funds or they can select one of four model portfolios that are managed by ISC's Registered Investment Advisor.

THE SHORT FORM

- STA has 85 employees; 85 percent participation.
- Participants can choose from over 70 no-load and load-waived mutual funds or one of four model portfolios.
- Depends on frequent, direct contact and simple communication.
- Service model customized to clients' needs.
- 90 percent of all ISC advisors and 100 percent of the service staff are registered reps.

"From a personal standpoint, the 403(b) has given me another avenue to use for saving for my retirement," says Brenda Hott, Director of Human Resources for STA. "Sometimes young people don't think about growing older so they procrastinate when it comes to saving, thinking they'll get to it someday. But as I've learned over the years, time passes quickly and retirement age is here before you know it! Especially in this economy, it's rare for employees to be offered not only a 403(b), but also a 401(a) money purchased plan like we have at Southwest Transplant Alliance. My advice to young people is to take advantage of the 403(b) and also to tell the company how much you appreciate being able to participate in it."

Within the past 10 years, STA has shortened the vesting period for the 401(a) plan, to allow employees greater ownership over their plans for retirement. This relatively small change has been another excellent recruitment tool that's included in an already outstanding benefit package offered by the company.

As STA enjoys consistent growth and increasing tenure among our key personnel, ISC Group has enrollment meetings on the first or second Monday of each month for all new staff. They also offer all staff member plan reviews by request at anytime. These reviews are conducted by the owner of ISC, Terry Hill, as well as Coby and Scott Hayes, ISC's in-house CFA and COO.

"We live in the day and age of investment companies driving their clients to the Internet and/or 800 number call centers," says Coby Hood. "Our goal is to remain as accessible to our clients as they so choose. We strive to be approachable and keep the communication between ourselves and our clients as open and as frequent as possible."

The goal of these reviews is simply to help STA employees prepare for retirement and to retire comfortably. Our advisors keep us on a level playing field in terms of service priority and investment advice. They help us to one day reach our financial goals by seeing the complex strategies we initiated during the new-hire enrollment process to full maturation. ISC makes these complex strategies as simple as possible, explaining them in simple terms rather than in terms of Betas, Alphas, or standard deviations.

"ISC also sets itself apart by having approximately 90 percent of all employees and 100 percent of service staff securities licensed," says ISC CEO Terry Hill. "We customize our service model to the client's needs and/or wants to ensure a mutually beneficial relationship that continues to grow daily."

A company that hires employees to literally save lives has to do what it can to make sure that the lives of its employees are supported and enhanced by that company's services. Southwest Transplant Alliance does exactly that in a variety of ways, and the valuable retirement programs that STA offers in conjunction with ISC Group are a key part of that effort to be sure employee morale remains high.

Southwest Transplant Alliance is proud of its partnership with ISC Group and hopes that this mutually beneficial affiliation will remain in place for many years to come.

Pam Silvestri is public affairs director for Southwest Transplant Alliance in Dallas.

PLAYING RISK-FREE BLACKJACK WITH FIXED INDEX ANNUITIES

FIAs offer a safe-money alternative for retired or retiring clients.

By Jill Snyder

“In a true game of blackjack, there are three possible outcomes; win, lose or push (tie). With an FIA, one outcome is eliminated: losing.”

Marge, my favorite client, a sharp, captivating high-school social studies teacher in her mid-sixties, has the pointed wit and charismatic appeal of a stand-up comic. Handing me a cup of coffee in her cluttered kitchen, she stares intently at me and declares, “Always know what’s really important in life.” With that, we begin to discuss her plans for her impending retirement with one caveat: She doesn’t want to gamble with her retirement savings.

I always tell my clients that I can guarantee two things when they invest in the stock market: Their account balance will go up and their account balance will go down. Marge, only one year from retirement, feels that investing in today’s stock market at this point in her life would be akin to bellying up to the blackjack table, slapping down her life savings and saying a prayer “to the casino Gods.” That option is not in the cards.

I begin laying out her options. With the “safety” of her nest egg as her primary objective, we discuss money market accounts, CDs or a 5-7 year commitment to a fixed annuity with the hope of earning 2.5 percent to 3 percent. In her usual comedic style, Marge suggests we invest in a time capsule and bury her savings in the back yard, or better yet, hide it under her mattress.

Then I start telling Marge about what I came there to talk about; a fixed index annuity (FIA). This safe money alternative will give Marge what she really needs right now — participation in an index (commonly, the S&P 500 index) without the risk of losing her principal. Sounds too good to be true? Let’s take a look.

FIAs offer interest-crediting based in part on the performance of an index, along with insurance benefits such as minimum guarantees and death benefits. When these products were first introduced, they were referred to as equity index annuities (EIA). In June of 2008, the Securities and Exchange Commission (SEC) tried to apply Rule 151A, claiming these products should be under the SEC’s oversight and treated as securities. On July 13, 2010, the U.S. Court of Appeals threw out the rule, ending SEC scrutiny and leaving fixed index annuities under state regulation as an insurance product.

FIAs protect the account holder by simply not participating in the loss of the index. Instead, they earn zero credit when the index is down. If there is a gain, the profit (index credit) is added to the account value. This credit can never be taken away assuming the FIA has an “annual reset” feature that locks in index credit gain on each anniversary date of the contract

THE SHORT FORM

- FIAs offer a safe money alternative without the risk of losing principal.
- They offer interest-crediting based on the performance of an index (i.e. S&P 500) along with insurance benefits such as minimum guarantees and death benefits.
- They earn nothing when the index is down; gains are credited to the account value.
- The "annual reset" feature locks in index credit gain on each anniversary date of the contract; credit can never be taken away.
- An annual point-to-point method may generate more index credit in a volatile market.
- A monthly sum index credit is better in a steadily increasing market.
- Investing 50 percent in each type is a sound strategy.
- Be aware of all the caps, surrender charge periods, fees and withdrawal restrictions.
- Failure to disclose all the contract details may cause you trouble.

I explain to Marge the concept of this unique investment, emphasizing that if the linked index on an FIA had a negative return, she would not experience any principal loss. On the other hand, if she invests in an index mutual fund and the index share price falls, an account value loss would occur. In usual Marge style, she laughs loudly, imagining herself playing blackjack with wild abandon for several hours, comforted in the guarantee that she would still walk away with at least what she started with and not one penny less. "Sounds like a no-brainer," she says.

In a true game of blackjack, there are three possible outcomes; win, lose or push (tie). With an FIA, one outcome is eliminated: losing. I suggest to Marge that in her blackjack metaphor, the hours she spends happily playing blackjack represent the time or years she'll need to commit to the FIA contract (e.g. surrender charge period) which can range from five to seven years.

FIA TERMS TO KNOW

There's a new vocabulary to get accustomed to when working with FIAs, terms that describe different index crediting methods such as monthly sum, annual point-to-point, performance-triggered and blended average.

Which one is best? The answer depends on how the market is going to perform over the next 12 months. In a more volatile market, an annual point-to-point method may generate more index credit than a monthly sum as the index credit is calculated at the end of each contract year anniversary. An FIA's anniversary date is the date the money is deposited into the contract. If funds are invested on Nov. 1st, the client is basing her index crediting method on a 12-month period between Nov. 1, 2010 to Nov. 1, 2011. The client's balance throughout the year remains the same as the day the account was opened, until a full 12 months have passed when the index crediting is determined.

A slow and steadily increasing market will bode well for those who choose a monthly sum index credit; the performance of the index is tracked each month (with a cap) instead of once per year. If the monthly cap is 2.5 percent and the index is going up 1 percent or 2 percent each month, the end result could be anywhere between 12 percent and 24 percent. Realistically, there will be some negative months that can offset those small monthly gains but most likely, a higher credit will result in these types of market conditions.

PARTICIPATION RATES

FIA contracts contain return limits from a rising market. This limit depends on the particular indexing method that the insurance company uses. The most common method used to limit returns is called the "participation rate," whereby the company names a set rate they will credit the annuity. For example, a 90 percent participation rate would credit the annuity with 90 percent of the growth experienced by the index. If the index gained 10 percent, your FIA client's gain would be 9 percent for that year. Participation rates generally range between 50 percent and 90 percent. Insurance companies are speculating on the direction of the index over the coming 12 months when they're establishing participation rates, cap rates or any other fees. Some companies reserve the right to alter those rates and caps during the life of the contract so be sure to fully explain this to your clients.

FIA INDEX CREDIT STRATEGY

When investing in the stock market, a diversification strategy is often recommended because we never know which asset class will perform the best. You can apply this same strategy with FIAs by helping clients choose a variety of index crediting methods to take advantage of multiple market outcomes.

I explain to Marge that by hedging her bets and placing 50 percent of her funds in the monthly sum index allocation and 50 percent in an annual point-to-point index allocation, the following outcomes could occur: In a strong, steadily rising market, she may benefit from a double-digit return in the monthly sum crediting but be capped out at 6 percent on the annual point-to-point.

In a volatile market, she may end up hitting the annual point-to-point cap but have a smaller index credit on the monthly sum. (With monthly sum, there's a cap on the monthly gain but no floor on the downside so a few negative months could wipe out the monthly cap gains.) And if the index is negative over the 12 month period...

At this point, Marge starts waving her hand

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impatiently and says, "I know, I know! I don't lose anything. Zero is my hero, right?"

That's right, Marge.

Even with all the new terminology associated with FIAs, it will surprise you how quickly your clients will catch on to the product features and crediting methods. I always bring the insurance company's brochures, but I find that "selling the story" of zero risk in an index annuity can be simply exhibited by drawing a graph showing that the principal investment never goes downward. (The only way clients can lose funds is if they choose to liquidate the annuity before the surrender charge period. Any guarantee is based on the claims-paying ability of the underlying insurance company.)

Marge carefully listens to the information I present but has one objection.

"Anyone who gets to be my age knows there's no free lunch," she says. "What's the catch?"

"The catch," I respond, is that you're trading 100 percent of the market risk to receive a portion of the market gain. Using your blackjack analogy, since your chance of losing has been eliminated, your winnings will be capped at a certain percentage. So if the capped rate for this particular hypothetical game of blackjack is 70 percent, winning $10 means you take home $7. But the consolation is that if the dealer beats your hand, you don't lose anything."

INCOME RIDERS

In response to a retiree's need for regular, guaranteed income in the future to help supplement other retirement income needs, many insurance companies have added income riders on their FIAs to provide those guaranteed payments. Be cautious and check the fine print on these riders; some of them have fees to activate the payments. These riders vary from product to product and company to company. Stay tuned for a future article on the intricacies of these types of payments.

DO YOUR HOMEWORK

According to *USA Today*, 41 companies currently offer a total of 131 equity-indexed annuities. I've always said, "once you've seen one fixed index annuity, you've seen one fixed index annuity." Do your homework to ensure you're fully aware of all the caps, surrender charge periods, fees and withdrawal restrictions. Failure to disclose all the details of the contract may land you in hot water down the road. Insurance companies have responded to complaints by ramping up their disclosure forms to ensure full transparency.

Keep FIAs in mind as safe money alternatives during the discovery stage with your clients. When determining their financial goals and uncovering where their money is currently located, you may find CDs or money market accounts that are generating little or no interest, or market-based IRA investments that are making your clients nervous. Moving or rolling over these funds into an FIA may make the best sense for your retired or retiring client; a "no-brainer" as Marge would call it.

Would your clients find a way to secure a seat at this kind of blackjack table?

Jill Snyder, TGPC, has built her 19 years of success at National Insurance Services by earning her clients' trust. Jill is a registered representative of GWN Securities, Inc., a Tax-Exempt and Governmental Plan Consultant (TGPC) and a licensed life and health insurance agent. Jill has served on the Board of Directors for the National Tax Sheltered Accounts Association (NTSAA) for the past three years. Jill can also be found playing blackjack at the tables.

Today's To-Do List

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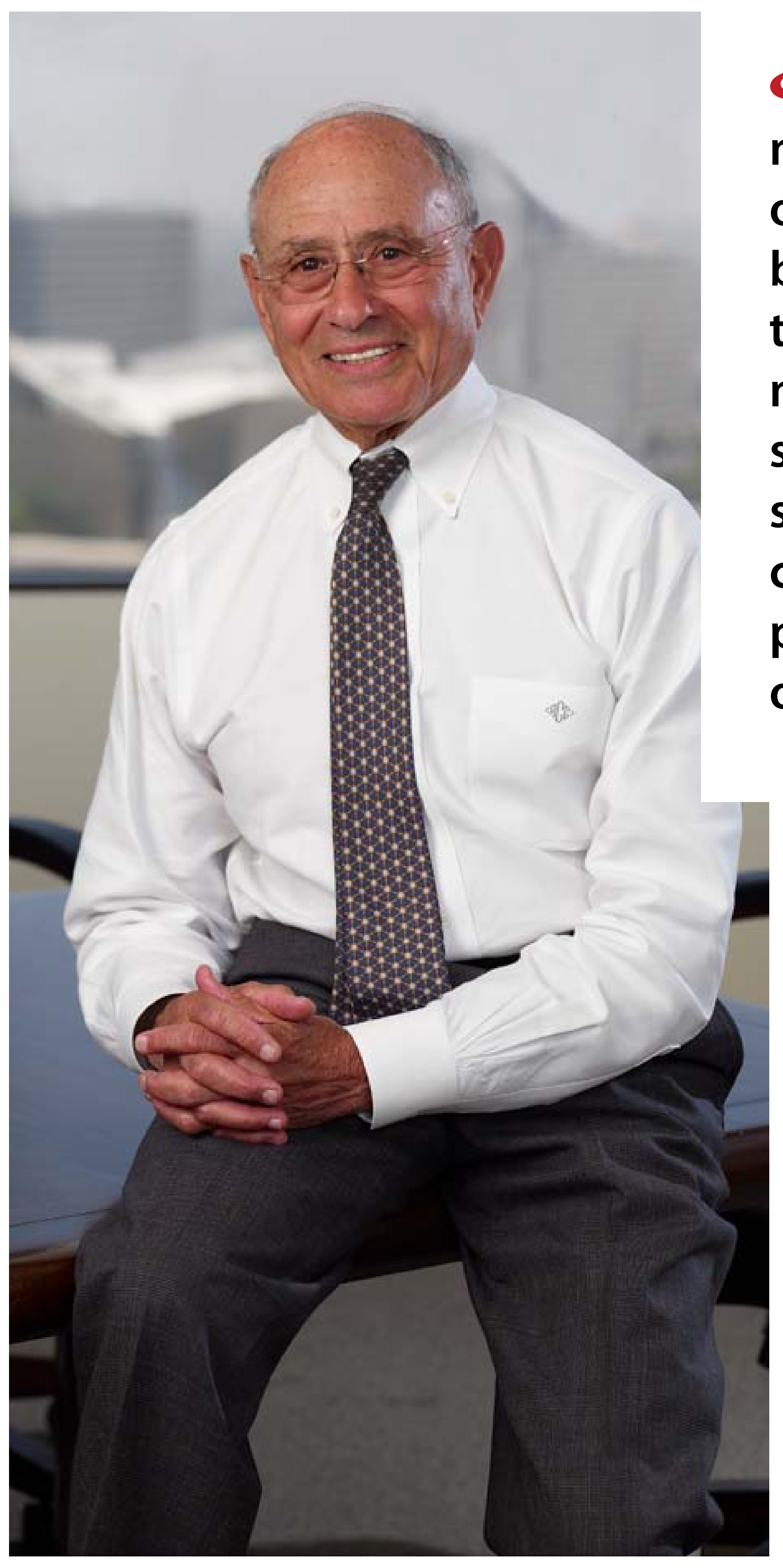
HEAD OF THE CLASS

Superintendent of Los Angeles Unified School District Ramon C. Cortines is the kind of teacher every 403(b) advisor should aspire to be.

By Keith Young



“ Today, we must educate our students, but also provide them with many important social services such as meals, counselors, psychologists and other resources.”

It’s axiomatic that 403(b) advisors need to be educators. They need to know how 403(b) and 457 plans work — their advantages, disadvantages and costs — and they need to be able to convey that knowledge in an accessible way.

But they also have to go beyond that; they need to know the personalities and objectives of the educators they serve. What are their goals, not just in retirement but in their careers as educators? How did they choose their profession and how do they see themselves as professionals? What’s life like in the classroom, teaching children from all socio-economic strata? What are the pressures? What are the rewards? How do they feel first thing in the morning and at the end of the day?

Begin that study with Ramon C. Cortines, superintendent of the Los Angeles Unified School District (LAUSD), second largest in the United States. Yet at age 78,

respected as an experienced administrator and innovator in his field, he continues to consider himself a teacher.

MANAGEMENT AND LEADERSHIP

"My job has been difficult and challenging during the past two years," says Cortines. "I'm responsible for the district's long-term economic stability amid a historic budget crisis. At the same time, I have to promote educational accountability. Our goal is to streamline the district's unnecessary expenses and improve overall academic achievement. We must ensure that all 700,000 students get what they need in every classroom at the 900 elementary, middle school, and high school campuses."

Cortines began his career in a classroom in 1956, working with elementary, middle school, and senior high students. He spent years teaching sixth grade in a small school district near Monterey and high school English in Covina before succeeding up the administrative ladder.

As Cortines grew up in San Francisco, his adoptive parents took him to museums, to youth symphonies on Saturdays, and other educational events. They believed these outings were an important part of his education and they supported his decision to become a teacher.

"Even though my mom and dad didn't attend college, they believed that education was the basis of a good quality of life for me," he says. "I was in the fourth grade when I came home and told them that I wanted to be a teacher. My dad said, 'Are you sure that's what you want to do? You can make more money in other professions, but we'll support you in whatever you do.'"

His parent's emphasis on education paid off. Cortines earned a bachelors' degree in speech and education, and two masters' degrees, one in school administration and the other in adult learning from Pasadena College (now Point Loma Nazarene College).

"When I finished college, I got a job as a sixth-grade teacher at Aptos on Monterrey Bay. I earned $3,200 that year. My dad had to help me pay my bills. I had 44 children in my first class. It wasn't ethnically diverse, but it was educationally diverse and I had to individualize the instructional program to meet their different needs. I found ways to help the slow and reluctant learners succeed and contribute to their peers in the classroom."

According to Cortines, that experience in his first classroom was the best lesson and training ground for becoming a superintendent. "It was all about management," he says. "How was I going to manage that classroom to maximize the potential of those 44 children? I had to find creative solutions to help each student succeed.

He's used that lesson throughout his career. He's served as superintendent in Pasadena, San Francisco, San Jose, New York and Los Angeles. He also has worked at many universities, including Harvard, Columbia, Stanford and Brown. He's served on task forces and committees with the California State Department of Education; the U.S. Department of Health, Education and Welfare; the U.S. Department of Human Services; and the U.S. Department of Education.

For Cortines, education is about leadership and adapting to change. "When someone asks, 'What' s your goal with your class or your school or your district?' I say, 'It's to create a community of contributing citizens. But to be a contributing citizen, you have to have a comprehensive education. That's why I put our students' education first."

NOT YOUR TYPICAL WORK SCHEDULE

During the past two years, Cortines has worked with his staff and district employees to cut more than $1.2 billion from LAUSD's budget due to revenue shortfalls and state budget issues. He started to decentralize LAUSD — moving schools away from tight district control and giving more buying power to individual schools.

He doesn't conform to a typical work schedule. Most days he arrives at his office between 4:30 a.m. and 5:00 a.m. His day is packed full of meetings with teachers, principals, students, superintendents, and board members. And he still makes unannounced visits to classrooms to learn more.

When Cortines visits school classrooms, he looks for teachers who are creative and engaged with students, principals, and parents. He also encourages principals to find new ways to improve the learning environment and teacher creativity.

"When I served as an instructor in the U.S. Army, I learned the concept of 'observation awareness,'" he says. "It's part of the survival skill training for soldiers and I've applied it to my career. To be a successful superintendent, I have to observe and listen intently to what's really going on. Then, I have to use my best judgment to take the correct and proper actions."

For Cortines, reading is the foundation of literacy. He believes the school library is one of the most critical resources in our schools.

"We need to get children to read more books," he says. "Technology is great, but children who read books regularly have higher test scores and grades than those who don't. It's also extremely important to get our students proficient in the English language, in both oral and written form. Excellent communication skills are keys to success today. A successful student becomes a successful contributor to society."

As important as reading is, though, it's not the only kind of literacy. "Math and science are also literacy," he asserts. "They involve reading, comprehension, and problem solving. Also other areas such as physical education, motor development, music, arts and health are activities I can't cut out of a

budget. We can't maximize the potential of a mind if we aren't taking care of the temple the mind is in.

"The business of education has changed dramatically through the years," says Cortines. "Today, we must educate our students, but also provide them with many important social services such as meals, counselors, psychologists, and other resources."

The Best Years of Their Lives

Cortines believes that today's school districts must continue to recruit excellent teachers, even those from the business world, and he encourages retired lawyers, business owners, and corporate executives — even others looking for a career change — to go into teaching to share their experiences.

"Education, teaching, administration, and management are far more sophisticated than when I taught school," he says. "That's why I ask them to give me the next five best years of their lives. The education system will have benefited greatly from their experience, enthusiasm and ideas."

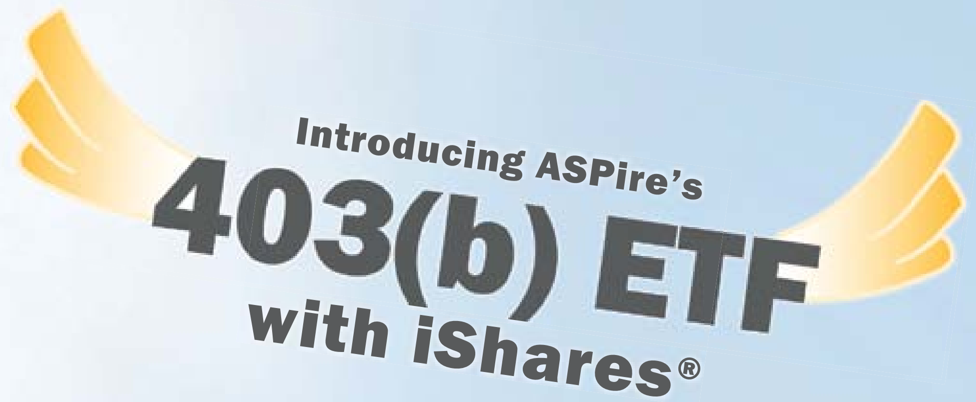
In July of last year, Cortines told the *Los Angeles Times* that he would be retiring some time in the spring, without specifying a timetable. He cited frustrations with the job, but vowed he would not leave before completing several important items on his reform agenda.

"I'm a continuous learner and lifelong teacher, so I don't like the word retirement," he says, but he believes everyone should plan now for the next phases in their lives. "Since people are living longer, they need to be better educated about their benefits and retirement plans. Many need to put more money aside to ensure a better quality of life for their futures."

For financial professionals to successfully serve employees in school districts like LAUSD, they must change from a selling mentality to an educational and serving mentality. They also need to be involved in the school community. Today, school district employees are looking for advisors who are honest and hardworking and who look out for their best interests. Employees need sound financial advice and guidance from a person they can trust.

Someone just like Ramon Cortines.

Keith Young is vice president, marketing for LSW in Dallas, Texas.



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MAKING THE CLIENT THE STAR PUPIL

By S. Bruce Allen

Find clients' risk comfort level, then make sure they're comfortable with your ability to manage the risk.

When I began writing this article I had a sudden flashback to my first week of school in 6th grade, of being called to the blackboard to solve a problem in front of the whole class. Being the new kid in town at a strange school, I was suddenly terrified of making a mistake. I approached writing this article with that same fear and trepidation until I realized that I have a lesson plan for every appointment.

I MANAGE RISK

All financial planners are challenged daily with our ability to effectively communicate and motivate our clients to do the right thing financially. Most of the time we're speaking a foreign language to our prospects. Teachers may know a lot about their respective fields, but when it comes to financial matters, we need to start with Investing 101.

I begin with the basics of paying yourself first, dollar-cost averaging, and understanding mutual funds or annuities. But they look at me as if I were a two-headed monster when I try explaining portfolio construction and risk management through diversification.

Most teachers are afraid to risk losing their hard-earned money. So in order to gain their trust I have to determine their tolerance for risk and assure them that I don't want them to lose their hard-earned money, either. So instead of just trying to differentiate my performance from some other guy's, I explain the concept of risk management by using every teacher's favorite subject from college — statistics.

Because (investment) risk-free investments yield in the low single digits, and the recent stock market losses are painfully fresh in all of our minds, this task is more important than ever. The goal is not to make them financial whizzes on their own, but to make them comfortable with my own financial expertise. Financial planning is the service I provide. It's what I'm all about.

I MANAGE FEARS

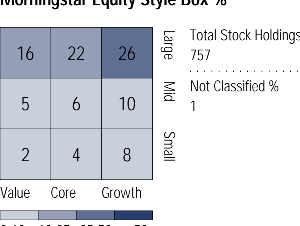
Among my favorite tools that help me visually illustrate these complicated financial concepts are reports that I generate using Morningstar Workstation ©. It provides all the tools I need to start a discussion about investing. By starting with an explanation of risk or the permanent loss of capital, I can begin to learn how much market risk my clients are willing to take. Are they willing (and do they have the time) to take aggressive risk? Are they more cautious? Are they totally uncomfortable with any investment risk at all?

As we go through the reports together, they begin to realize that a fixed rate of 2 percent or 3 percent a year is unlikely to keep pace with inflation, much less help them reach their long-term retirement goals. Even so, most of my clients simply don't have the stomach to weather all of the market's gyrations. So using the Morningstar © pie chart or "recipe," I illustrate reducing investment risk by

Analysis 07-31-2010

Asset Allocation	Portfolio Net %	Bmark Net %
Cash	9.88	0.00
US Stocks	42.07	100.00
Non-US Stocks	19.69	0.00
Bonds	26.89	0.00
Other/Not Classified	1.47	0.00
Total	100.00	100.00

Morningstar Equity Style Box %



Total Stock Holdings 757

Not Classified % 1

Morningstar Fixed Income Style Box %

	Short	Interm	Long
High	0	31	0
Med	21	13	0
Low	0	0	0

0-10 10-25 25-50 >50

Total Bond Holdings 2309

Not Classified % 35

mixing asset classes of large, mid-size and small-company funds. Then I layer in bonds of various types along with a portion in fixed income instruments or cash.

As we continue through the process, such obtuse concepts as diversification suddenly begin to make sense to them without my ever having to give them the dry, textbook definition. Then we search for the best "ingredients" to complete the recipe. It doesn't matter if I'm working in a single family of mutual funds, a multi-family variable annuity, or a large universe of exchange-traded funds or mutual funds. After all, our mutual goal is to make a reasonable rate of return based on the client's investment objectives and tolerance for risk.

I RECOMMEND INVESTMENTS

As we look for the right ingredients for each asset class we begin by looking for the most appropriate investments available that meet the client's investment objectives. This is when I begin the portfolio construction process, trying to balance risk and return for the client. The screening capabilities of Workstation help make this job much easier now.

Criteria that I use in the portfolio construction process include historical data such as three-year and five-year performance versus peers and benchmarks, expenses, manager track record and other relevant statistical data. Once I've selected the ingredients and built a diversified portfolio, I now shift the focus to explaining statistical concepts like standard deviation and mean. Using the Morningstar © program, I can visually illustrate the proportional relationship between risk and investment returns – the greater the client's return target, the more volatility we have to take to get there. By going through this process, I've explained that we're looking for above-average performers on a risk-adjusted basis. Simple enough.

To visually explain risk, I draw a bell curve, put in the three standard deviation lines, and discuss the range of potential returns, the likelihood of achieving those returns, and the implications of "tail risk."

No one ever calls to thank me when the portfolio performs to the third standard deviation to the right. But let it land to the left of the first standard deviation and my phone will invariably ring off the hook because of the losses. So my goal is to make the bell curve taller and skinnier by constructing portfolios with lower volatility and consistent returns.

WE BUILD PORTFOLIOS

Clients really don't need to be able to build a balanced portfolio themselves. But they need to be comfortable with your ability to do it for them. They need to understand that you follow a disciplined process and that you'll monitor their progress in your reviews, adjusting their portfolio recipe according to changes in investment performance, time horizons and goals.

Now I put down my chalk and step away from the board; I've completed the first lesson plan.

Class dismissed.

Are Your Clients at the Head of Class?

Have you created some surefire techniques for educating participants about retirement and investments that have actually increased enrollment in a sponsor's 403(b) plan?

We'd like to hear about it.

Summarize your ideas in a brief email to stevensullivan08@comcast.net and you could be the bylined author of the next Lesson Plan in *403(b) Advisor.*

THE SHORT FORM

- Clients need to understand their risk tolerance.
- It's sometimes easier for them to visualize portfolio risk than to understand a definition.
- Clients need to understand your role as a long-term financial advisor.

S. Bruce Allen is an advisor with Old Dominion Insurance/Investments in Winchester, Va. and is co-chair of the 2011 NTSAA Annual Conference.

EDUCATION IS AN ETHICAL NECESSITY

By Sarah Simoneaux, CPC

Advisors who delay training or choose not to earn credentials can lose business to those advisors who make a commitment to ethics and education.

"We now have more new employees who want to participate in our voluntary 403(b) program," said Susan Smith, the benefits administrator for Campus College, a private, nondenominational school. Jane Johnson, the financial advisor for the college's 403(b) program, was surprised – but pleased – to hear that the number of new 403(b) participants was so high. The last time she'd been out to meet with Susan, only 90 employees were contributing to the 403(b) individual accounts. Forty new possible accounts meant more work for Jane, but she'd be paid for that work through one or more of the four investment alternatives offered to those who elected to make voluntary contributions.

"At the request of our board," Susan continued, "we've been reviewing employees' distribution requests. In this economy, it's critical that our participants have access to their money in case of hardship."

Jane hesitated. She knew that this plan was a voluntary 403(b) arrangement and wasn't subject to the rules of ERISA. She also suspected that the four existing investment providers didn't offer review of employee hardship or loan requests; they only processed distributions. If the school made decisions about hardship and loan eligibility, it could make the individual 403(b) accounts part of an ERISA plan.

Jane had gone to a training session about the differences between ERISA and non-ERISA plans, and she thought that the instructor had said ERISA plans with more than 120 participants were subject to an accounting requirement, but she couldn't remember exactly what it was.

"Your plan could be subject to the rules of ERISA," Jane pointed out. "Let me check on it and get back to you."

"Oh no, not ERISA!" Susan snapped back. "You assured us that our 403(b) plan was voluntary and not subject to those complicated regulations. We don't want to be responsible for an ERISA plan!"

"I'm sure you'll be fine," Jane hurriedly replied. "Most 403(b) plans aren't ERISA arrangements anyway."

Jane went on to enroll 35 of the 40 employees in the plan, and two of the investment providers agreed to monitor hardship and loan requests. She assured Susan that this kept the plan's non-ERISA status intact. Jane knew she needed to learn more about the new rules, but she was successfully enrolling employees in this plan, as well as several other 403(b) arrangements she worked with. She could worry about getting education later.

UNINTENDED CONSEQUENCES

Jane's lack of education, however, meant she wasn't fully aware of the complexities of non-ERISA and ERISA 403(b) plans. In 2009, the Department of Labor issued guidance on 403(b) arrangements. One of the triggers that turns a non-ERISA

THE SHORT FORM

- One trigger that turns a non-ERISA plan into an ERISA plan is employer involvement in processing distributions or making hardship withdrawal determinations.
- The number of participants in ERISA plans will determine whether they're subject to an annual audit and must file a 5500 form with the government.
- An uneducated and inattentive advisor can inadvertently allow a voluntary 403(b) plan to become an ERISA plan.
- ASPPA's Code of Conduct requires continuing professional education to stay current with the latest rule changes.
- ASPPA and NTSAA conferences, publications, and webcasts are excellent sources for continuing education and professional credentials.

plan into an ERISA plan is employer involvement in processing distributions or making hardship withdrawal determinations. Although two of the four providers took on this responsibility for Susan's plan, Jane didn't follow up with Susan about approving distributions or hardships for employees with the other two providers.

Even more important, ERISA plans with more than 120 participants are subject to an annual audit and must file a 5500 form with the government. Had Jane participated in a detailed education and credentialing program, such as the Tax Exempt and Governmental Plan Consultant (TGPC) designation from ASPPA and NTSAA, she would have learned about the rules of ERISA and how they apply to 403(b) plans.

Later in the year, Amy, another 403(b) financial advisor in the same area as Jane, earned her TGPC designation from ASPPA. While studying for her exam, she learned that ERISA plans with more than 120 participants are subject to an annual audit. She thought there were likely to be 403(b) plans that had unknowingly become ERISA plans and were now subject to this audit requirement.

Amy teamed up with a local CPA firm with experience in auditing ERISA plans at a reasonable cost, and started prospecting 403(b) plans with more than 100 participants. When she got a meeting with Susan and reviewed her plan contracts and procedures, she saw that Susan was reviewing and approving distribution requests for two of the four investment providers that didn't handle loans and hardships. In addition, the school's 403(b) plan had 125 participants, making it an ERISA plan subject to the audit requirements.

THOROUGH AND HONEST

Although Susan wasn't happy with the analysis, she appreciated the fact that Amy had been so thorough and honest throughout the process. She also was glad that Amy had been proactive in bringing in the CPA firm that could do the audit efficiently and at a reasonable cost. Despite being the bearer of bad news, Amy's ethical approach had won the plan away from Jane.

As a credentialed member of ASPPA, Amy was subject to ASPPA's Code of Conduct and she had a required continuing professional education requirement to stay current with the latest rule changes. To meet these standards, she attended the annual NTSAA conference and participated in ASPPA webcasts on 403(b) and 457 plans. She realized that her commitment to education and her expertise in 403(b) and 457 plans could help her win more business.

She highlighted her designation and involvement with ASPPA and NTSAA on her website and with her clients and prospects. As a result, she was selected to partner with a local TPA who also credentialed their employees with ASPPA. She became the "go to" advisor for 403(b) and 457 plans in her area – especially larger plans possibly subject to ERISA audit and filing requirements.

Expertise, education and ethical practices aren't just the hallmark of a quality advisor, they're also fast becoming a necessity in the complex world of retirement plans. Advisors who delay training or choose not to earn credentials can lose business to those advisors who make a commitment to ethics and education. The long-term dedication to educational excellence will translate into long-term gains for advisors in the 403(b) profession.

Sarah Simoneaux, CPC, is president of Simoneaux Consulting Services in Mandeville, La. She is a former president of ASPPA and currently works with the Education and Examination Committee as a Technical Education Consultant. Ms. Simoneaux wrote the textbook, Retirement Plan Consulting for Financial Professionals, which is used for the PFC-1 (Plan Financial Consulting - Part 1) course of ASPPA's Qualified Plan Financial Consultant (QPFC) credentialing program.

Have You Had to Make a Difficult Choice?

Have you ever faced an ethical dilemma that tested your professionalism? A potential conflict of interest, perhaps, a fiduciary question, or a client's questionable actions?

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STAND BY YOUR CLIENTS

By Edward J. Crawford

Losing a sponsor doesn't have to mean losing your clients.

I've seen many changes in our business. Some of those changes have helped and some have hurt.

My venture into the tax-sheltered account (TSA) market began many years ago and came about through the Sec. 125 market. I was one of the founders of a very successful Sec. 125 plan administration company. Our first account was a large regional hospital system and that account provided me the opportunity to provide TSA products and services. Over the years we enrolled over 2,000 accounts. Our main objective was new business. We provided products and services to this account for over 35 years.

Due to changes in the economy the hospital system engaged a consultant to evaluate its current vendors. The consultant recommended that, due to a recent downgrade in ratings for our carrier, all participants should have the lowest cost mutual fund-based products instead. We were replaced with another carrier, and personal contact with participants was replaced with an 800 number. Oddly enough, this carrier later had to be bailed out by the federal government. So much for the advice of consultants.

What to do with no ongoing revenue and a loss of our asset bonuses? (This might be a good time to review your current sales agreement.) And how do you provide promised service to those existing clients with no ongoing revenue?

According to the Best Practices Manual, published last year by the NTSAA 403(b) Compliance Resolution Summit, such a problem can't be resolved by product providers alone. Very often, sponsors and providers struggle to untangle the lines of service responsibilities to orphan participants. In our case the line was clear: Regardless of the consultant's recommendation and the sponsor's action, we still had a responsibility to the people who owned our products

"All client contact, even if it's not revenue producing, is an opportunity for cross sales.

First, we had to reduce overhead. We also changed from just being a TSA enrollment-based company to becoming a more full–service, diverse financial

THE SHORT FORM

- Personal contact beats an 800 number anytime.
- Diversify from TSA enrollment to full service financial services.
- All client contact is an opportunity for sales.

services company. Even though we lost our payroll slot we didn't lose our Sec. 125 administration services contract and this allowed us to market more products, both pre-tax and post-tax, to all eligible employees.

We also contacted our existing TSA account holders to let them know that we are still going to be here to help them. All client contact, even if it's not revenue producing, is an opportunity for cross sales. This personal contact led to many rollovers, and new sales for the other products that we had added to our portfolio. An example would be long-term care and life insurance products.

This transition happened five years ago. The participation rates are at an all-time low (less than 5 percent). The consultant that originally made the recommendation is now a used car salesman. Just a reminder that you can't beat personal service and they can't replace us (successfully) with an 800 number.

Edward J. Crawford is a principal of Echo Financial Services in St. Louis, Mo. and former NTSAA President.

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PREPARATION IS KEY

By Marion Wise

With more investment options and improved flexibility, Southwinds' new 403(b) plan was a decided improvement.

I've run into a prevalent perception that many 501(c) (3) charitable organizations either don't know very much about retirement plans or aren't interested in offering them as a benefit for their employees. But at Southwinds Inc. we care very much about retaining our employees and offering a competitive benefit package; we're pleased that we're able to offer a 403(b) plan.

Southwinds Inc. is a non-profit organization located in Pittsburgh, Pa. It was founded in November 1983 by a group of parents who saw a need for community residential facilities for their intellectually and developmentally disabled children reaching adulthood. Today, Southwinds provides residential care and life skills training for 51 amazing individuals. Southwinds operates 14 group homes on a 24 hour basis, 365 days a year, which are staffed by very dedicated and caring employees.

Fourteen years ago, the Board of Directors decided to offer a retirement benefit; they entered into a contract with an insurance company to provide an annuity product as a 403(b). Unfortunately, the product had many fees and surrender charges attached to it so employees leaving Southwinds could not easily move their accounts without facing steep surrender charges.

In 2007, under the direction of the Board, we started to look for an alternative retirement benefit. First, the Board stopped allowing eligible employees to enroll in the plan. We sent out an RFP and after reviewing the proposals submitted, we invited four firms to present before our Board. One of the presenters was Morgan Stanley Smith Barney, who manages Southwinds' modest endowment fund.

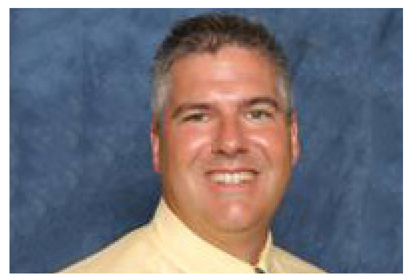
The Board and I already had a great working relationship with Rick Lerach, a CFP, with Morgan Stanley. I was impressed with how well prepared he was in his presentation. He had outlined what our fee structure would be, identified and researched a plan administrator (CPI), and offered investment options for the employees using the American Funds.

The Board voted to accept Morgan Stanley's proposal. Rick worked with us and CPI to establish a 403(b) ERISA plan. Under the plan, employees are eligible to make contributions immediately but the plan requires a year's service before Southwinds will match up to 3 percent of their contribution. In order to discourage employees from using the plan for ordinary savings, it doesn't allow for any type of hardship loans.

PROBING QUESTIONS

I encourage our employees to take full advantage of our benefits; I emphasize the importance of participation in the 403(b). The example I use is: "Where else can you deposit $10 and immediately receive a matching $10 deposit, a 100 percent return on your money!" Our enrollment percentage rate is high, about 70 percent of our eligible employees participate.

Tax-Exempt & Governmental Plan Consultant (TGPC)



“Because of the overwhelming changes in the 403(b) marketplace, having the TGPC designation is essential. It’s also a key part of our marketing strategy that has given our firm a significant competitive advantage.”

JOHN ADZEMA, QKA, TGPC
Summit Retirement
Plan Services, Inc.
Cleveland, OH

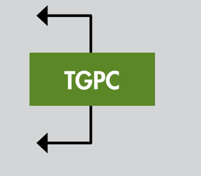
ASPPA’s TGPC credential covers the sales, marketing, administrative and consultative aspects of 403(b), 457 and other plans maintained by tax-exempt and governmental entities.

The curriculum covers:

- Compliance requirements
- Eligibility and vesting
- Contributions and allocation formulas
- Reporting and disclosure
- Religious organizations plans
- Fiduciary standards and responsibilities
- Traditional IRAs and Roth IRAs
- Ethics and professional responsibility

Tax-Exempt & Governmental Plan Administration, Compliance and Consulting Track

RPF-1
RPF-2
TGPC-1
TGPC-2



ASPPA makes it easy for you to prepare for the TGPC credential examinations with:

The Source Textbook: Get the authoritative resource for anyone involved in the 403(b) and 457(b) marketplace. *New edition now available.*
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For more information, visit www.asppa.org/tgpc!

* CRS & MCRS credential waivers available.

THE SHORT FORM

- Southwinds' old plan was burdened with many fees and crippling surrender charges.
- The new advisor came prepared with a proposed fee structure, a recommended plan administrator, and many more investment options.
- It's critical to keep the finance director informed about changes that may affect her role and the employees.

Having said that, I refer the employee to Rick. I'm not a financial advisor; I know that Rick will ask the probing questions, the personal things that I would not want to know nor should I be asking. Before enrolling, the employee needs to evaluate his or her own goals. I'm confident that Rick will do that and not just encourage the employee to enroll to increase his fees.

STAYING CONNECTED

In my position, it's important to stay informed on the changes that affect our employees' benefits. If I read about a new regulation or legislation, I know that I can call Rick for clarification; if he doesn't know the answer, he'll research and advise me if the change will have an impact on Southwinds' plan. That kind of diligent follow-through is important not only for me in my role as finance director, but for our employees as well.

Rick's with a very large firm and I know we're not one of his biggest clients. Maybe we've just found somebody who has a bit of compassion for us. As an organization that cares deeply about the residents it serves, Southwinds cares equally about the employees who serve our residents. We may not be able to pay top-dollar salaries, but we're proud to be able to provide a solid 403(b) plan to help them in their post-employment years.

Marion Wise is Finance Director at Southwinds Inc. in Pittsburgh.

Client of the Year?

Do you have a client who's really impressed you with his or her dedication to the teaching profession? Who regularly goes beyond the call of duty?

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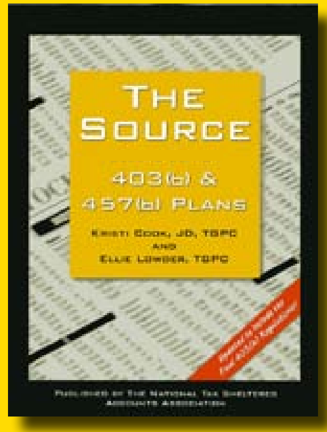

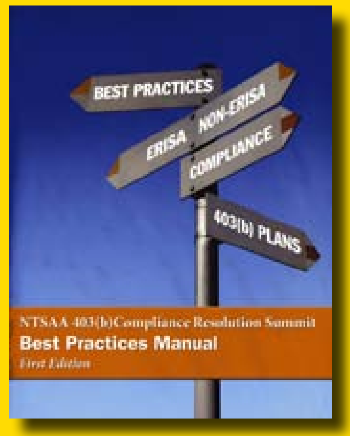

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TAKEAWAY

MY MISSION WITH A MEANING

By E. Thomas Foster Jr.

Success in the retirement plan business starts and ends with solving problems.

As I awoke in my hospital bed and cleared the cobwebs from a morphine-induced haze, things suddenly became clearer to me than they had ever been before. I had just undergone surgery for esophageal cancer and the prognosis was less than favorable.

A cold sweat broke over my brow. At times like this, we tend to think about our family and I realized that I hadn't done enough to protect mine if things went south. I felt truly humble as I prayed, asking for another chance to make things right.

"If you give me a second chance," I bargained, "I'll spend the rest of my career helping others obtain the financial security that I've taken for granted. I'll do whatever I can to help other people understand the value of financial planning."

It's been 14 years since I uttered my plea. Today, I'm cancer free. Most of my days are now spent crisscrossing the country, jumping from one jet to another, scarfing airline food and squinting at Blackberry messages.

But I do it gladly for every opportunity to speak with financial advisors and their clients to help them understand the importance of retirement planning. Like Dan Aykroyd in "The Blues Brothers," I am on a mission from God.

Those of you who serve the 403(b) retirement plans market devote your time to this same mission. You embrace it without the benefit of an epiphany, without divine intervention, and without saving grace. You do it because deep down, you know that you're fighting the good fight. You're helping your fellow man (and woman) prepare for the future. And you're helping protect families from financial hardship.

No, it isn't easy. The 403(b) market is not for the faint-hearted.

Although things are changing for the better, anyone who has worked in this frontier knows that it's not unlike the wild, wild west. Plan sponsors, lacking fiduciary obligations, often opened their gates to dozens of retirement plans with hundreds of investment options. The more, the merrier.

Participants were often overwhelmed by the sheer number of choices before them. They were left without anyone to guide them on esoteric issues such as limits for plan contributions, rules for hardship withdrawals, procedures for plan rollovers and others. It was a recipe for paralysis.

For years, many have silently wished for Marshall Matt Dillon to ride into Dodge and clean up the streets. In 2007, the sheriff arrived, not with a six shooter, but with new federal regulations governing 403(b) retirement plans. The rules have bestowed new administrative responsibilities on thousands of school districts, educational institutions, hospitals and other nonprofit organizations that sponsor retirement savings plans for their employees.

The new regs have wrought many changes, chief among them the consolidation of retirement plan offerings. Now, more 403(b) participants have a more manageable choice of one, two or three retirement plans. They sort through dozens instead of scores of largely redundant investment options. There is greater clarity and with it, greater certainty about what's expected from both plan sponsors and plan participants.

Not to be overly dramatic but this is your clarion call. More than ever, plan sponsors need you to help manage their retirement plans and meet their responsibilities. Never before have plan participants had such clear and distinct choices when it comes to making decisions about where to put their retirement dollars.

As I tell everyone I speak with, success in the retirement plan business starts and ends with solving problems. With the new 403(b) regs taking effect, you are now "Mr. (or Ms.) Goodwrench." You have an unequaled opportunity to help your clients reach their goals, whether the client is a plan sponsor looking to make their retirement plan more effective or a plan participant trying to figure out how much he or she needs to save to live comfortably after punching out for the last time.

Fourteen years ago, I climbed out of my hospital bed with a new purpose and zeal. Unsure of what future days would bring, I decided to make every day count. And I have been counting better days ever since.

The good news is that you don't need a life-altering event to open your eyes to the path toward success. The new 403(b) regs have altered your industry for the better and created a better direction for you. I pray that you make the most of it.

E. Thomas Foster Jr., Esq., is The Hartford's national spokesperson for qualified retirement plans. Foster works directly with broker-dealer firms and advisors to help them build their qualified retirement plan business and educate them about industry issues.

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VIEW FROM THE SUMMIT

The 401(k) SUMMIT is more than the industry's most relevant 3-day conference for retirement plan advisors. We've taken it a step further to bring you a "View from the Summit." The View offers concise, actionable takeaways from key presentations and articles... all designed to help you maintain your peak performance.

Click here to enjoy the *View!*

LETTER FROM THE EDITORS

Wow! Is it just us, or do you, as a retirement plan advisor, feel like you have been riding down the highway at 100mph with your head sticking out the sunroof lately? There is more activity going on in the retirement plan marketplace than ever before. To add to the fun, it is the beginning of the fourth quarter, which as we all know, is crunch time!

Advisor Update's goal is to help make sense of this chaos by providing you useful tools and timely information to help grow and solidify your practice.

This issue includes a very easy-to-follow list of Advisor Best Practices that will give you ideas and strategies that can be implemented today, Fred Reish's take on new DoL regulations that deal with the "fiduciary" definition, participant fee disclosure, and target date funds, and fascinating articles to help you stand out from the crowd, attract more clients and build your brand.

Plus nominations for the 401(k) Advisor Leadership Award are open! Have you someone deserving in mind?

Now, lean in and enjoy *Advisor Update*. You will be a better advisor for it.

C. Todd Lacey AIF®, The (k)larity Group, Inc.®

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