

2011 Trends in DB Bundling and Total Retirement Outsourcing: Evaluating the Opportunity in a Recovering Economy

March 2012

Sample Slides

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I. Project Objectives and Research Methodology

Terms

For the purposes of this analysis, terms are defined as follows:

- **Unbundled:** The plan sponsor uses distinct, unaffiliated providers for each DB service that is not performed internally.
- **Semi-bundled:** The plan sponsor purchases some DB services as part of a package from a single company, but either retains separate companies for the remaining services or performs them internally.
- **Fully Bundled:** The plan sponsor purchases all DB services as part of a package from a single provider, including the management of at least 25% of the plan's assets.
- **Total Retirement Outsourcing (TRO):** The plan sponsor purchases all DB and DC services from the same provider.
- **Total Benefits Outsourcing (TBO):** The plan sponsor purchases all DB, DC, and health and welfare services from the same provider.

Introduction

Total Retirement Outsourcing (TRO) and DB plan bundling have evolved significantly since Chatham Partners first began its coverage in 2001. Over the past decade, Chatham Partners has charted the evolution of the DB bundled and TRO markets through five comprehensive studies.

- (2001) *The Trend Toward Bundling in the Defined Benefit Market: Implications for Investment Managers, Recordkeepers, Trustee / Custodian Banks, Consultants, and Actuaries*, identified a trend toward purchasing multiple DB services from a single provider or a formal alliance of providers.
- (2003) *The Trend Toward Bundling of Defined Benefit Services and Total Retirement Outsourcing: Implications for Service Providers*, explained how growing sponsor openness to more efficient service delivery structures fueled an evolution toward TRO.
- (2005) *Next Wave: Opportunities and Challenges in the Total Retirement Outsourcing Market*, revealed that the market for bundled DB, TRO, and TBO had experienced growing pains. Despite the growth of the TRO market, this study suggested that a revolution had not occurred. Instead, the process had been more of a slow evolution.
- (2008) *The Long March: Strategies to Accelerate Growth in the Retirement Outsourcing Market* revealed that the addressable market for bundled Defined Benefit and Total Retirement Outsourcing was not growing. However, bundled retirement outsourcing growth opportunities existed for retirement plan providers willing to refine their marketing, sales, and product development efforts to align with plan sponsors' evolving needs.

Introduction

Since the release of the 2008 study, plan sponsors faced an extremely challenging macro-economic environment and an equity market that has experienced dramatic declines, which now appears to find itself in a volatile recovery period. Low investment returns and interest rates that remain at historically low levels have hurt plan funding levels and placed financial strains on plan sponsors. These financial strains can play an important role in how retirement plan administrative services are perceived by plan sponsors. Further, the investment management and advisory components of retirement plan management can also influence plan sponsor bundling preferences as they strive to attain a fully funded level.

Many providers in the bundling and TRO market individually reported an increase in the bundling of client retirement plan services over the past 12 months, which was a welcome change from 2008 as the outlook was somewhat muted then. This resulted in a guarded optimism as to the broader market opportunity, but providers were left wondering if their positive experiences were isolated or part of an evolving broader trend.

In its fifth comprehensive research study, Chatham Partners evaluates plan sponsor bundling attitudes to help providers validate the changing addressable market and to position their service offerings and platforms to meet the evolving needs of plan sponsors. The following insights gathered through plan sponsor surveying, intermediary interviews, and background conversations with providers yields a thorough analysis on the state of retirement plan services bundling.

Project objectives

In 2011, Chatham Partners launched its fifth consecutive study on DB Bundling and Total Retirement Outsourcing to deliver a strategic and tactical assessment of the market to providers. The goals of the research were to provide key benchmarking trend updates that had been established in past studies and to uncover key threats and opportunities for providers. To accomplish this, Chatham Partners surveyed 259 plan sponsors and 21 intermediaries. The study follows a similar approach to past studies with the addition of a dedicated analysis on the role of investment functions in the bundling process. The study is structured according to the following six areas of inquiry:

- 1) Attitudes toward current plan management approach.
- 2) Perceptions of benefits of DB, TRO, and TBO bundling.
- 3) Likelihood of changing a plan's management structure.
- 4) Satisfaction with current providers.
- 5) The decision-making process for selecting providers.
- 6) Role of investment capabilities in bundling.

Plan sponsor data collection

Phase I: Start-Up

May - July

Discussed information needs and key interest areas with study pre-subscribers



Developed a survey instrument addressing pre-subscribers' information needs



Compiled sponsor database based on internal and external industry databases

Phase II: Field Research

August - November

Developed customized websites for facilitation of electronic responses



Sent emails to plan sponsors on 8/24/11 requesting participation in the survey



Initiated reminder emails to initial non-responders to boost response rates



Closed website to additional responses on 11/15/11 with 259 surveys completed

Phase III: Analysis

November - January

Collected, cleaned, and organized data from all surveys received



Segmented data based on plan assets and other self-reported information



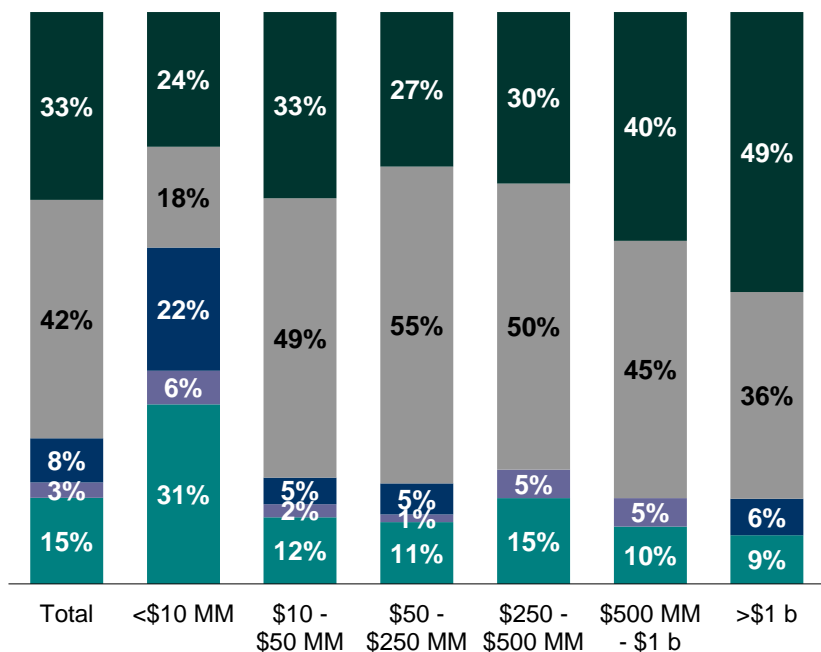
Present key findings and discuss results with subscribing organizations

Plan sponsor data collection (cont.)

- **Respondent base:** 259 individuals representing a cross-section of corporate plan sponsors, with quotas from five DB plan asset size categories ranging from plans with fewer than \$10 million in assets to plans with greater than \$1 billion in assets.
- **Respondent data source:** Contact data was obtained from internal databases, the S&P Money Market Directories, Pension Planet Database, and Judy Diamond King of Pension Funds Database.
- **Survey format:** Respondents completed an online survey consisting of both closed- and open-ended questions. Respondents were segmented based on the structure of their DB plan, as well as their approach to managing their DC and health and welfare plans.
- **Representative respondent organizations include:**
 - Cisco
 - Citi
 - Con-Way Freight, Inc.
 - Distilled Spirits Council of the US, Inc.
 - Ernst & Young, LLP
 - Fifth Third Bank
 - The Gap, Inc.
 - The Goodyear Tire & Rubber Company
 - Gortons, Inc.
 - Keithley Instruments, Inc.
 - KPMG
 - Helena Chemical
 - Herman Miller, Inc.
 - Hewlett Packard
 - IBM
 - Land O' Lakes, Inc.
 - National Frozen Foods Corp.
 - The New York Times Company
 - Reed Elsevier, Inc.
 - Retail Brand Alliance, Inc.
 - Schaeffler Group USA, Inc.
 - Sharp Electronics Corporation
 - SUPERVALU, Inc.
 - Tecumseh Products Co.
 - Tidewater Barge Lines, Inc.
 - Unifit Service Corp.
 - Valero Energy Corporation
 - Whirlpool Corporation

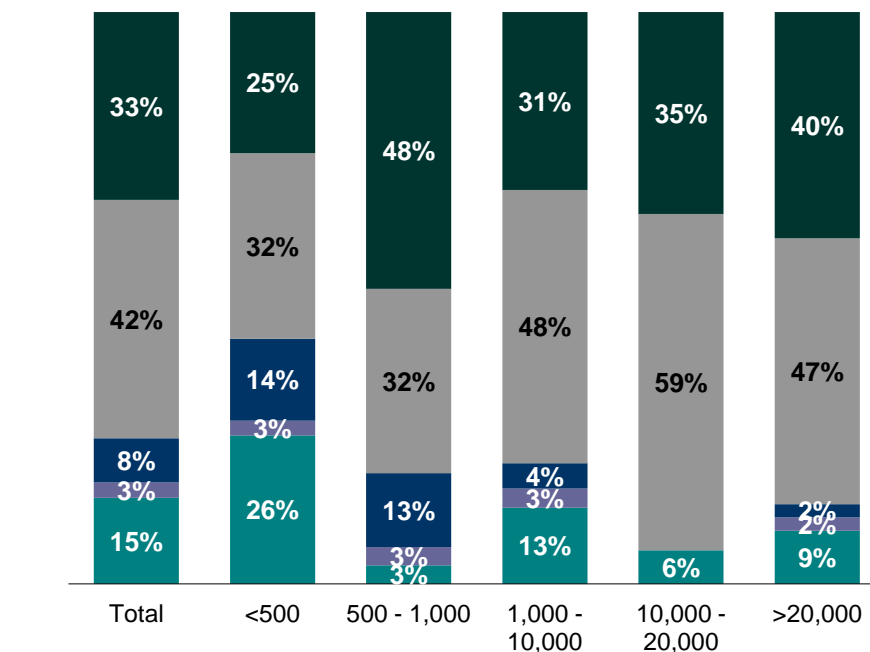
Plan sponsor demographics

Respondent role by DB plan assets



Base*: 259 51 43 74 20 20 47

Respondent role by number of employees



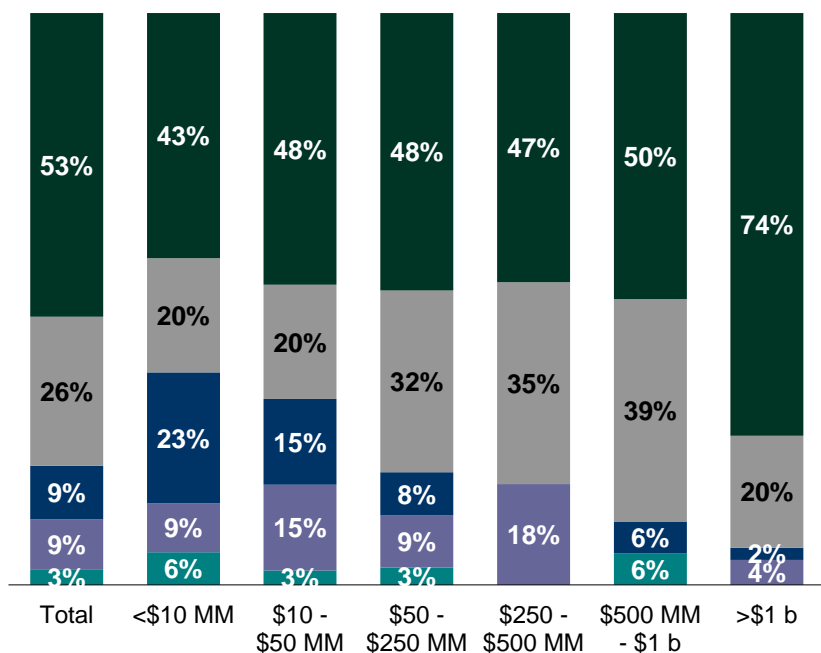
Base**: 259 77 31 90 17 43



* Four respondents did not provide asset information.
 ** One respondent did not provide number of employees.

Plan sponsor demographics (cont.)

Bundling status by DB plan assets



Base*: 226

35

40

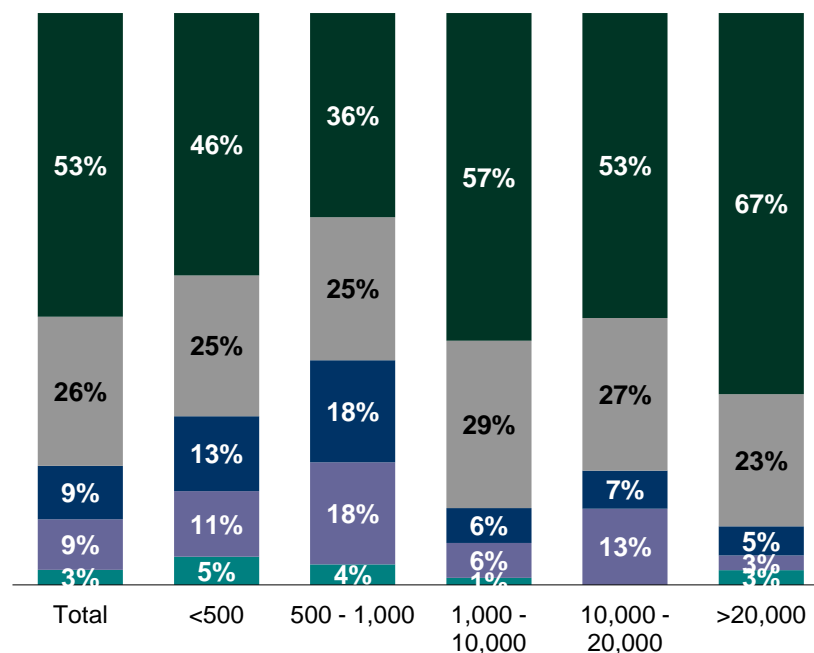
66

17

18

46

Bundling status by number of employees



Base**: 226

61

28

82

15

39

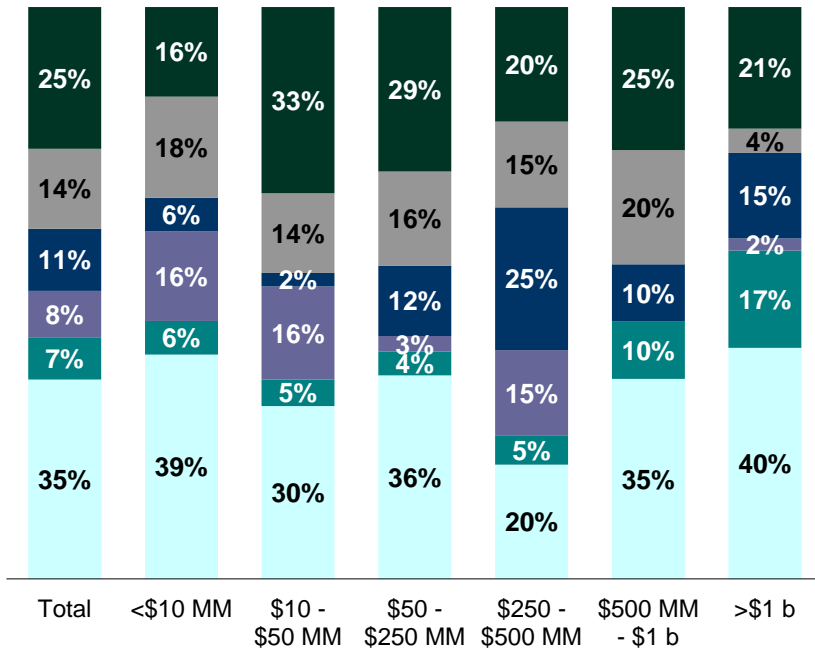


* 33 respondents reported that they “don’t know” if their DB services were bought as part of a bundled package. Four respondents did not provide asset information.

** One respondent did not provide number of employees.

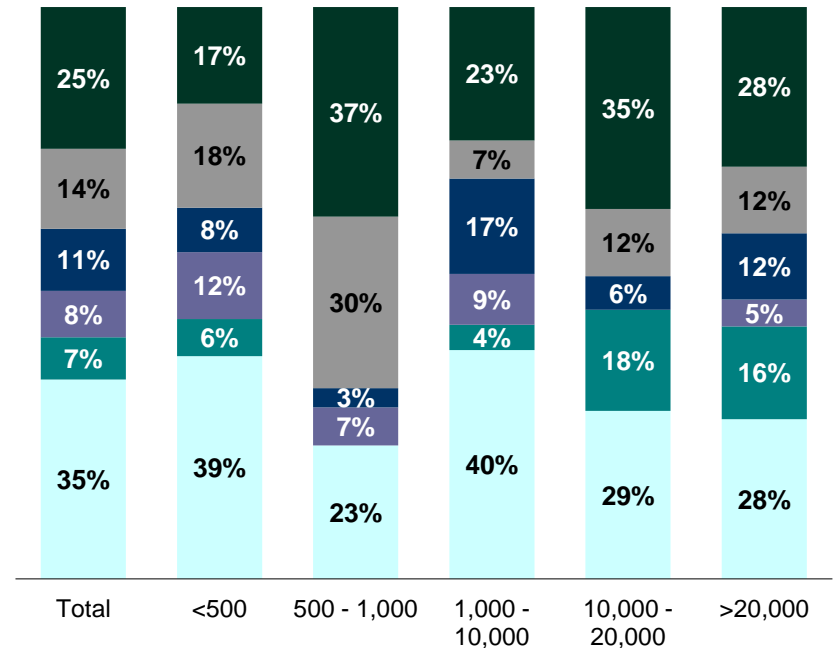
Plan sponsor demographics (cont.)

Respondent industry by DB plan assets



Base*: 258 51 43 73 20 20 47

Respondent industry by number of employees



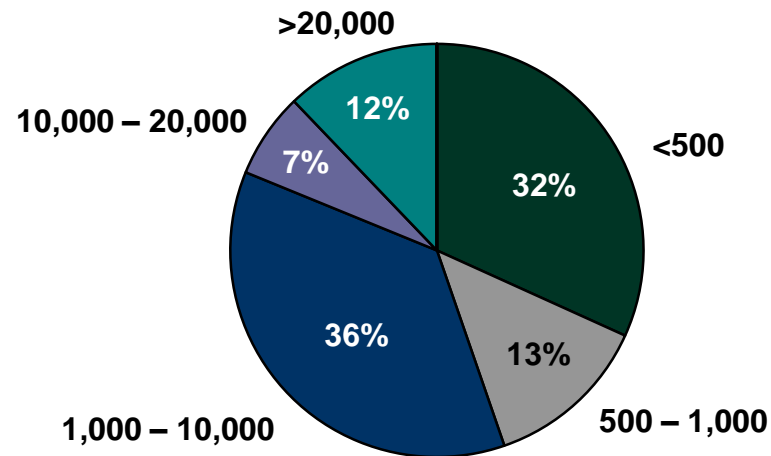
Base**: 258 77 30 90 17 43



* Four respondents did not provide asset information.
 ** One respondent did not provide number of employees.

Plan sponsor demographics (cont.)

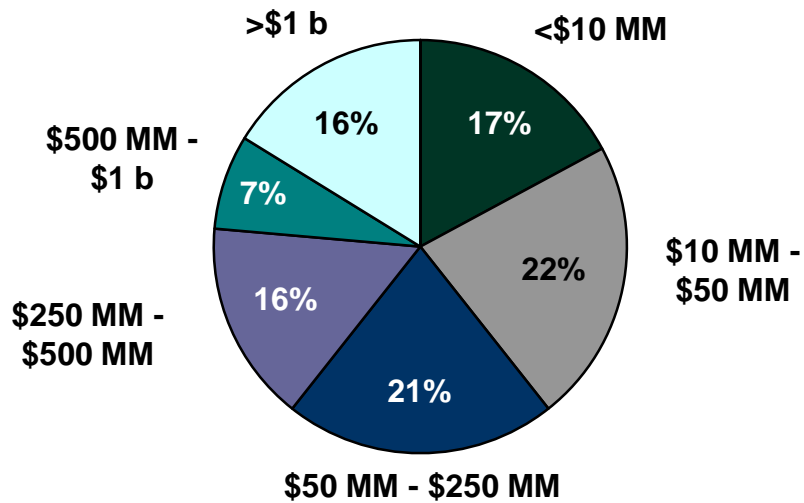
Approximately how many participants are in your organization's DB plan(s)
(including active, deferred, and retirees)?



Base: 255

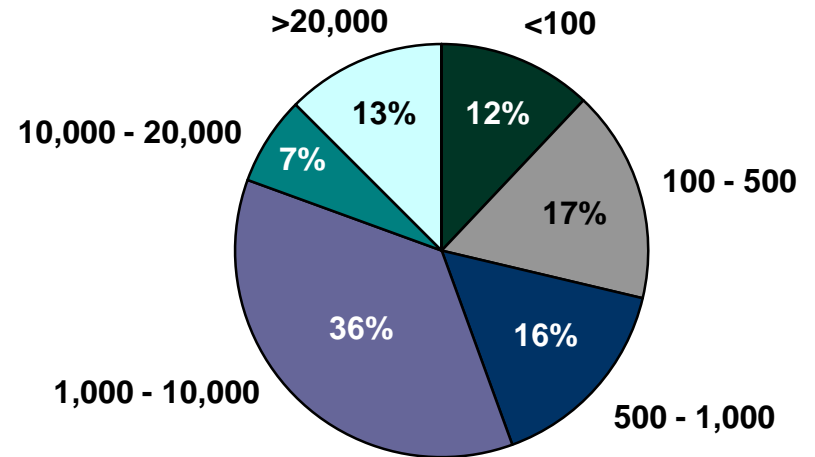
Plan sponsor demographics (cont.)

What is the approximate asset size of your DC plan?



Base: 216

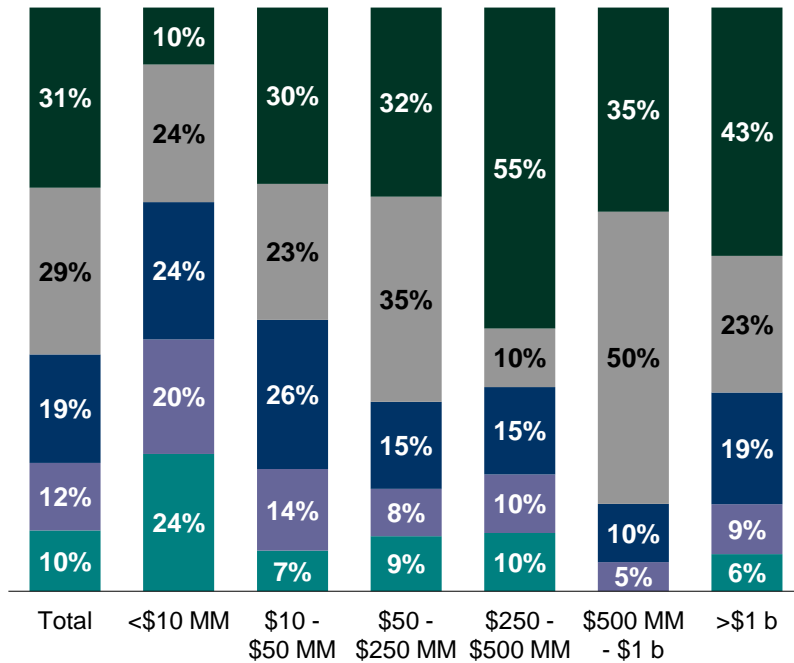
Approximately how many participants are in your organization's DC plan(s) (including active, terminated, and vested participants)?



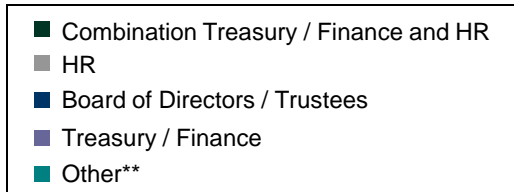
Base: 216

Plan sponsor demographics (cont.)

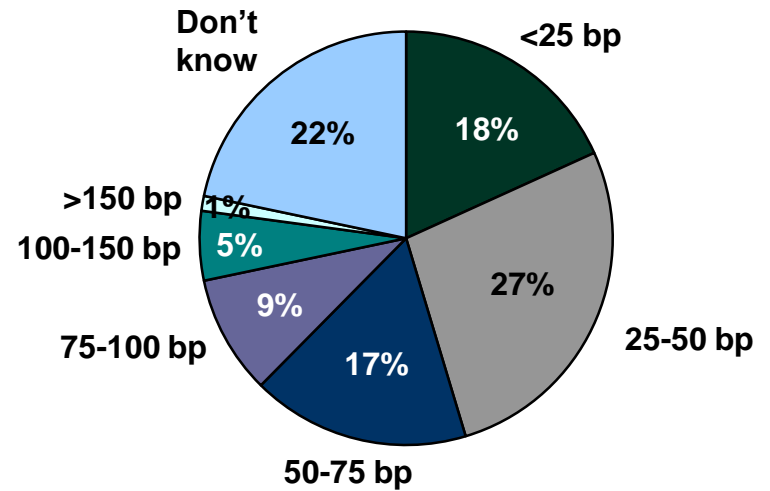
Leads decision making process for organization's retirement / benefit plans



Base*: 259 51 43 74 20 20 47



Into what range does the total cost of managing your pension plan fall?

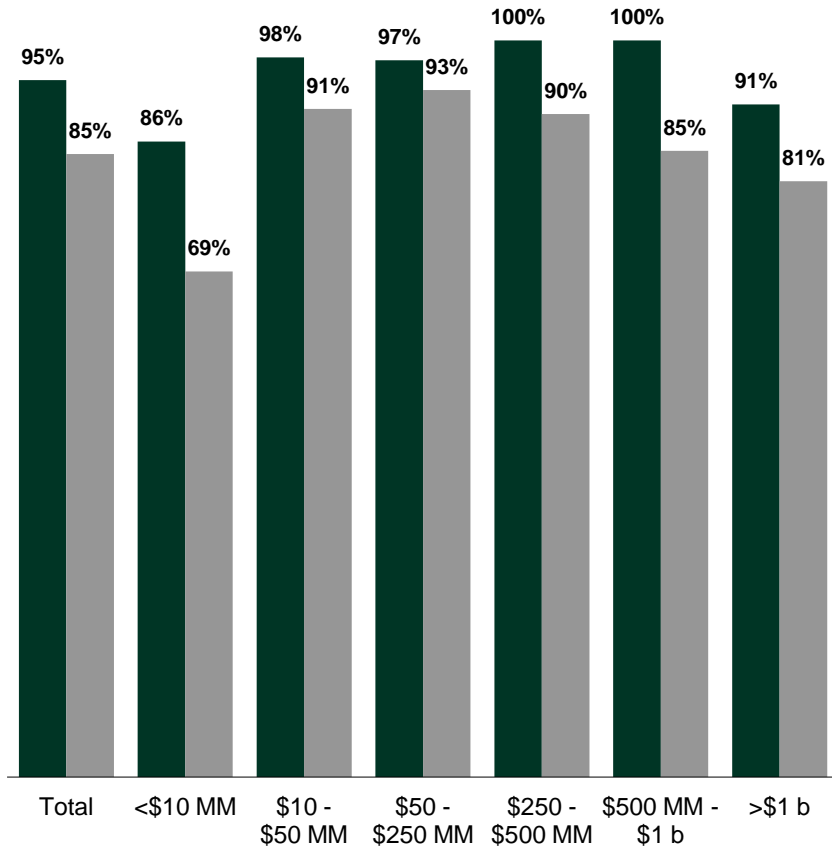


Base: 258

* Four respondents did not provide asset information.
 ** Includes six respondents who selected "Consultant".

Plan sponsor demographics (cont.)

Health & welfare and defined contribution plan incidence



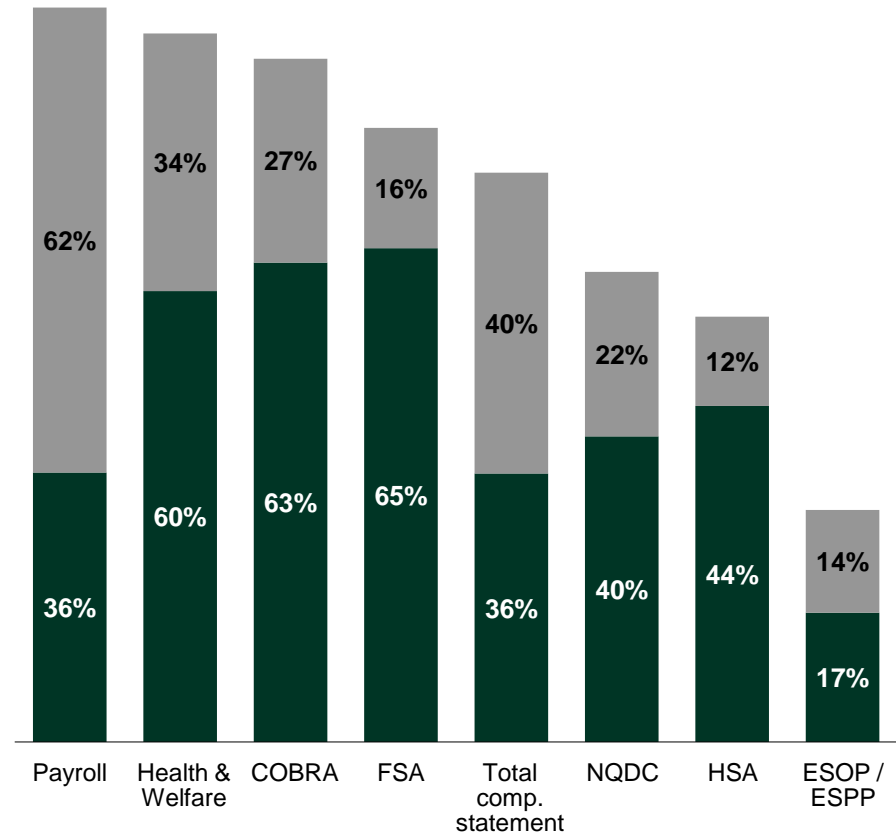
■ Health & welfare ■ Defined contribution

Base*: 258

258

259

Additional service incidence

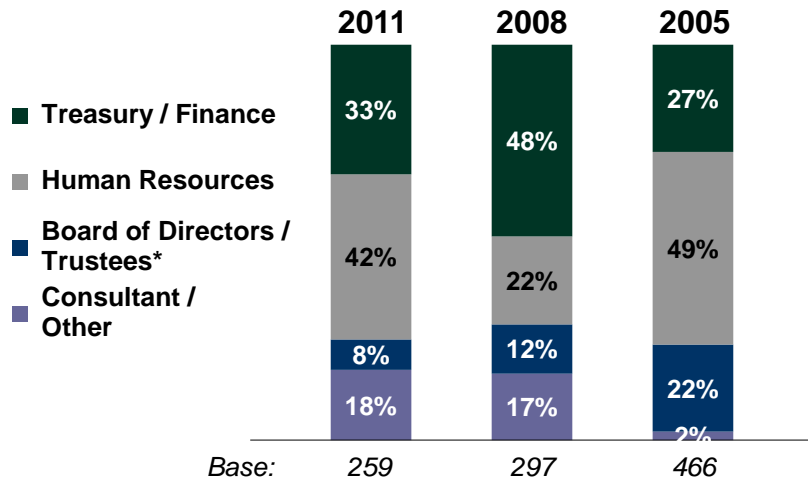


■ Use external provider ■ Perform internally

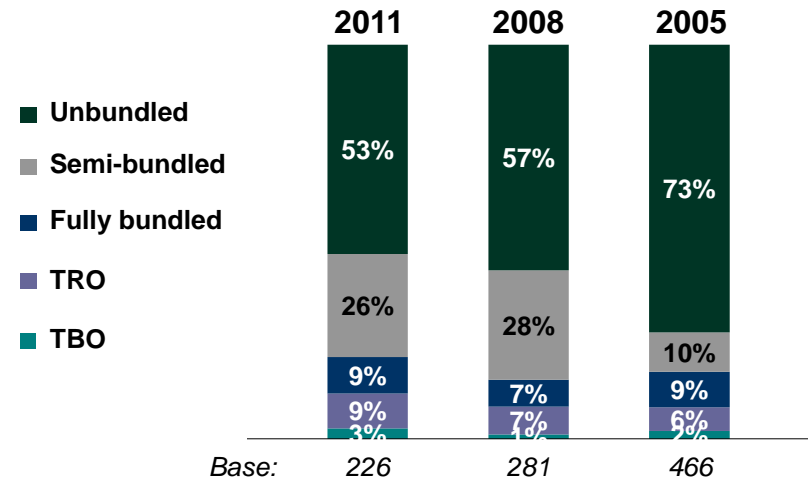
Base: 258

Plan sponsor demographics (cont.)

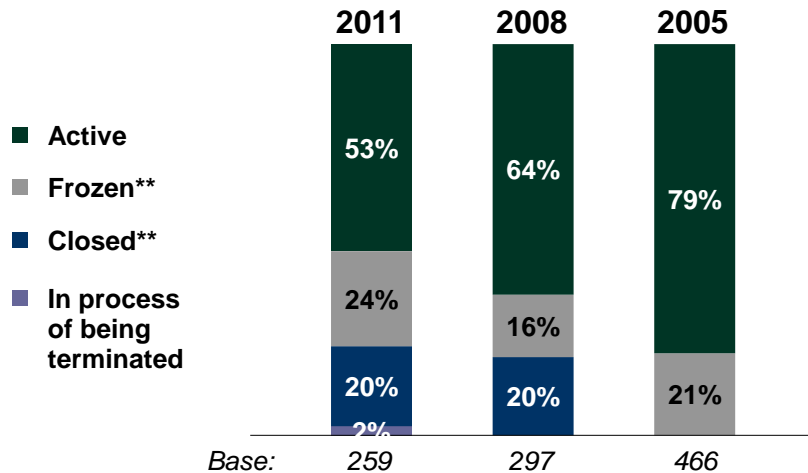
Respondent role



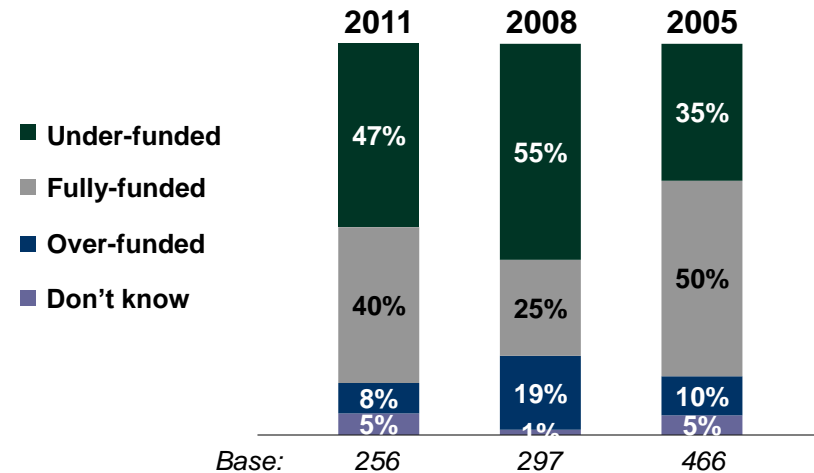
Bundling status



Plan status



Funding status***



* Referred to as "Senior Executive / President / CEO / Board" in 2005.

** Frozen and closed asked in conjunction in 2005.

*** Funding status based on projected benefit obligation (PBO) percentage.

Intermediary data collection

Phase I: Start-Up

May - July

Discussed information needs with study pre-subscribers

Developed a survey instrument addressing pre-subscribers' information needs

Utilized Chatham Partners' proprietary consultant and financial advisor contact list

Phase II: Field Research

August - November

Sent introductory emails on 8/31/11 to consultants and financial advisors outlining research

Chatham Partners' executive interviewers contacted consultants and financial advisors to schedule time to administer the interview

Executive interviewers administered interviews with participating consultants and financial advisors

Ceased conducting interviews on 11/4/11 with 21 interviews completed

Phase III: Analysis

November - January

Collected, cleaned, and organized data from all completed interviews

Categorized and analyzed intermediary responses

Present key findings and discuss results with subscribing organizations

Intermediary data collection (cont.)

- **Research participants:** Chatham Partners conducted 21 interviews with consultants and financial advisors, representing 20 firms, that have conducted TRO searches in the last 12 months. These consultants represent a cross-section of leading national and regional firms.
- **Interview format:** Participating consultants completed 45-minute telephone interviews including a mix of open- and closed-ended questions from September 2011 to November 2011.
- **Participating firms*:**
 - Berthel Schutter, LLC
 - Bolton Partners
 - Cafaro Greenleaf
 - Callan Associates
 - The Garrett-Hall Group
 - Lockton Insurance
 - Longfellow Benefits
 - Mercer
 - Milliman
 - NEPC
 - Prime Buchholz Associates, Inc.
 - Resources for Retirement
 - Prime Trust Advisors
 - Plante Moran Financial Advisors
 - Jeffrey Slocum Associates, Inc.
 - Schultz Collins Lawson Chambers, Inc.

Provider data collection

- **Research participants:** Chatham Partners conducted 5 interviews with individuals at 5 retirement service providers that subscribed to this study.
- **Interview format:** Interviewees completed 45-minute telephone interviews including a mix of open- and closed-ended questions from September 2011 to November 2011.

Phase I: Start-Up

May - July

Discussed information needs with study pre-subscribers



Developed a survey instrument addressing pre-subscribers' information needs



Encouraged subscribers to participate in interviews

Phase II: Field Research

September - November

Chatham Partners contacted study subscribers to schedule time to administer the interview



Chatham Partners administered interviews with participating contacts



Ceased conducting interviews on 11/15/11 with 5 interviews completed

Phase III: Analysis

November - December

Collected, cleaned, and organized data from all completed interviews



Categorized and analyzed provider responses



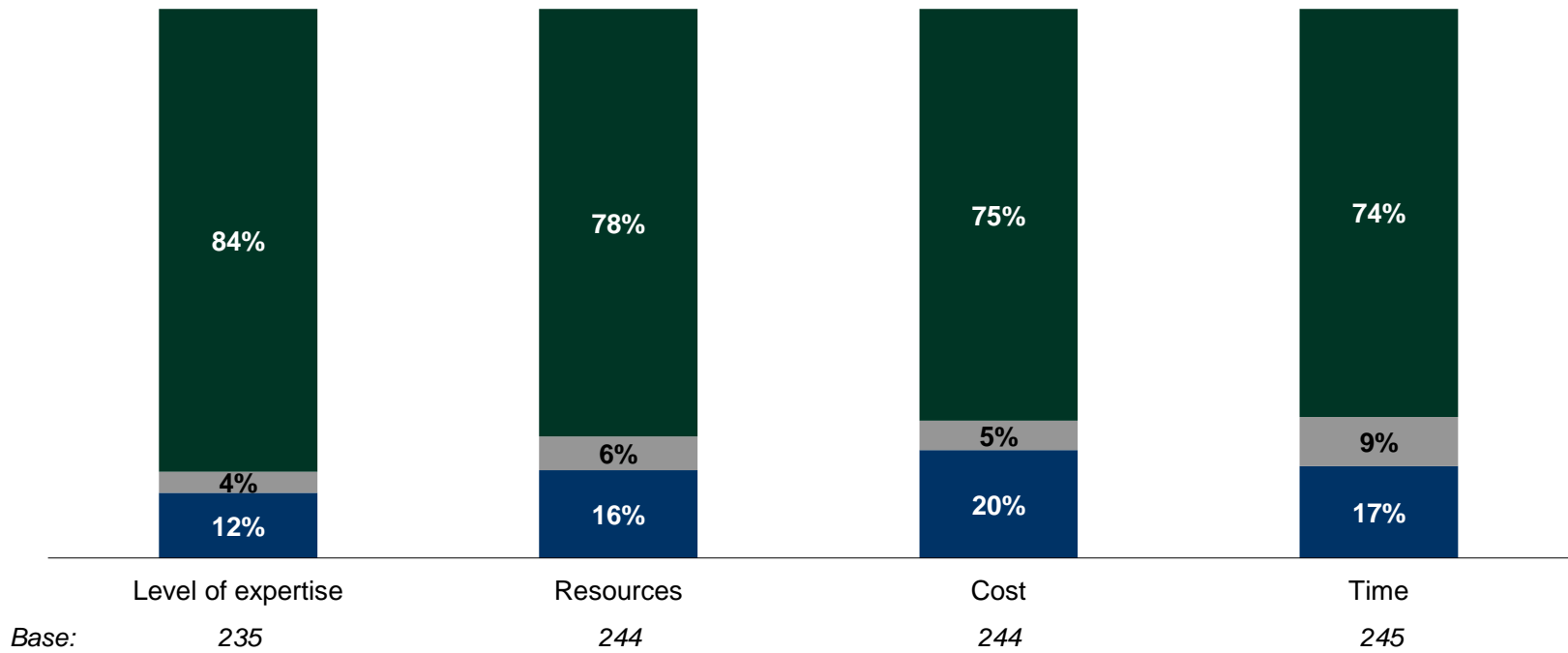
Present key findings and discuss results with subscribing organizations

II. Executive Summary

Plan sponsor comfort levels

The vast majority of sponsors are comfortable with the level of expertise, resources, cost, and time involved in their benefit plan administration. In fact, 84% of respondents are not concerned with the current level of expertise. Nevertheless, sponsors are most likely to cite discomfort with their plan's cost, and they express interest in reducing it (20% of mentions).

On an overall basis, which of the following best describes the way you feel about the time, resources, level of expertise, and costs associated with running your benefit plans? (Total)

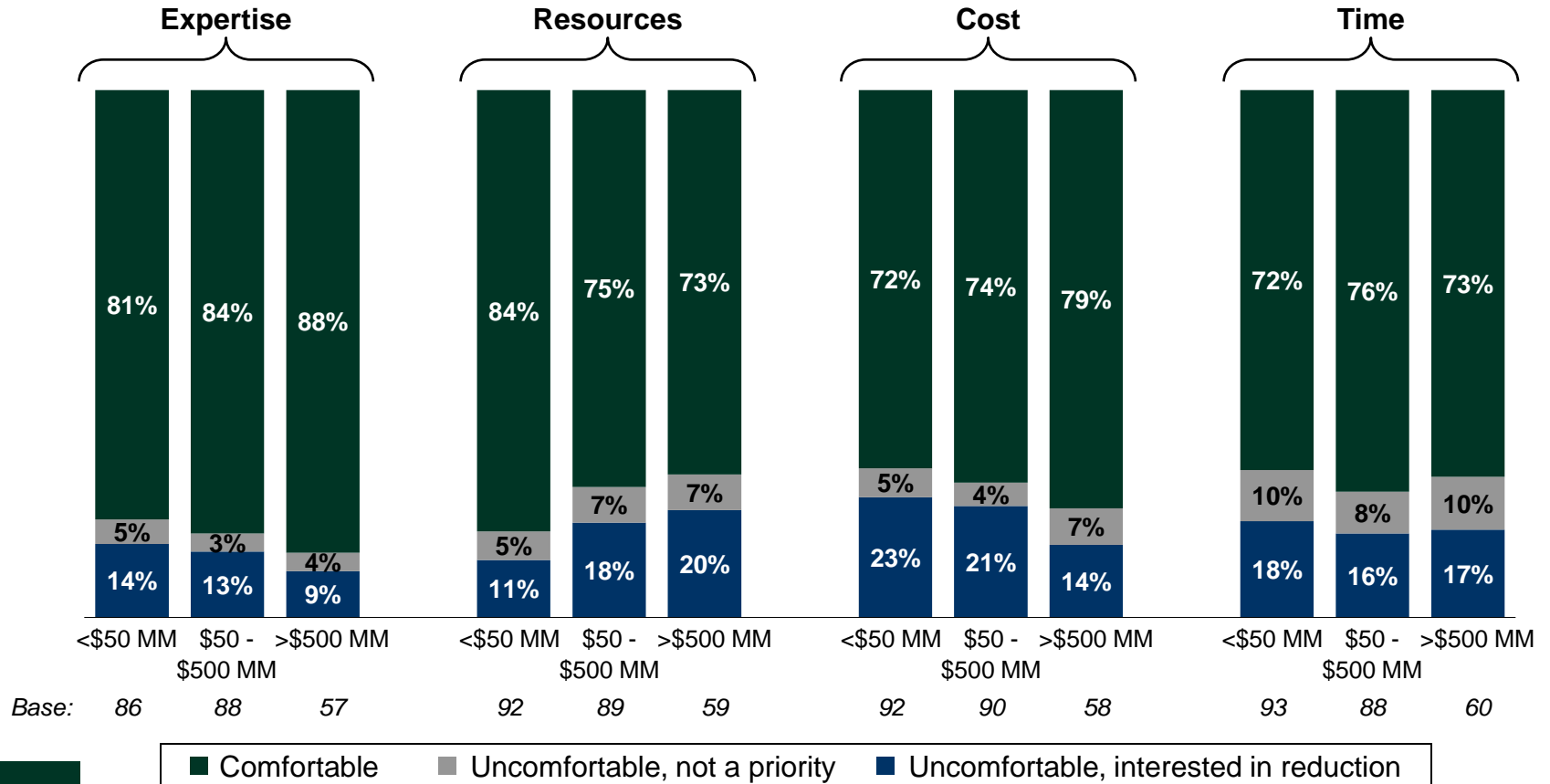


■ Comfortable ■ Uncomfortable, not a priority ■ Uncomfortable, interested in reduction

Plan sponsor comfort levels: By DB assets

While sponsors of the largest plans (>\$500 MM in DB assets) are least comfortable with the resources currently devoted to running their plans, they are least concerned with making changes to the level of expertise and cost. In contrast, sponsors of the smallest plans (<\$50 MM) are most comfortable with their resources at hand, but least comfortable with expertise, cost, and time.

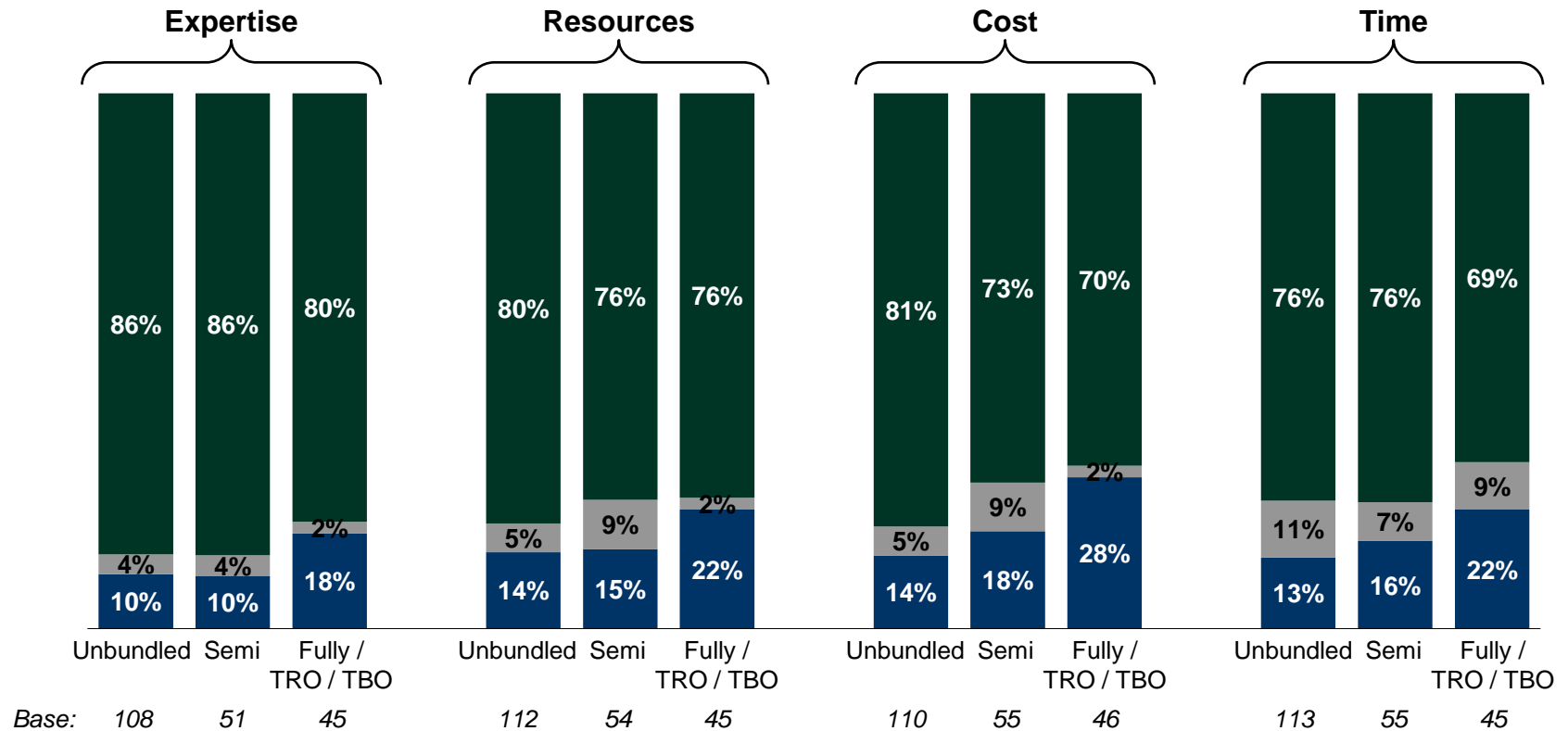
On an overall basis, which of the following best describes the way you feel about the time, resources, level of expertise, and costs associated with running your benefit plans? (Total)



Plan sponsor comfort levels: By bundling status

Interestingly, bundling more services appears to be correlated to sponsors' declining levels of comfort with the expertise, resources, cost, and time associated with administering their benefit plans. This trend is most evident when examining sponsors' comfort with the cost of their plans (81% of unbundled sponsors are comfortable with cost vs. 73% of semi-bundled vs. 70% of fully bundled / TRO / TBO).

On an overall basis, which of the following best describes the way you feel about the time, resources, level of expertise, and costs associated with running your benefit plans? (Total)

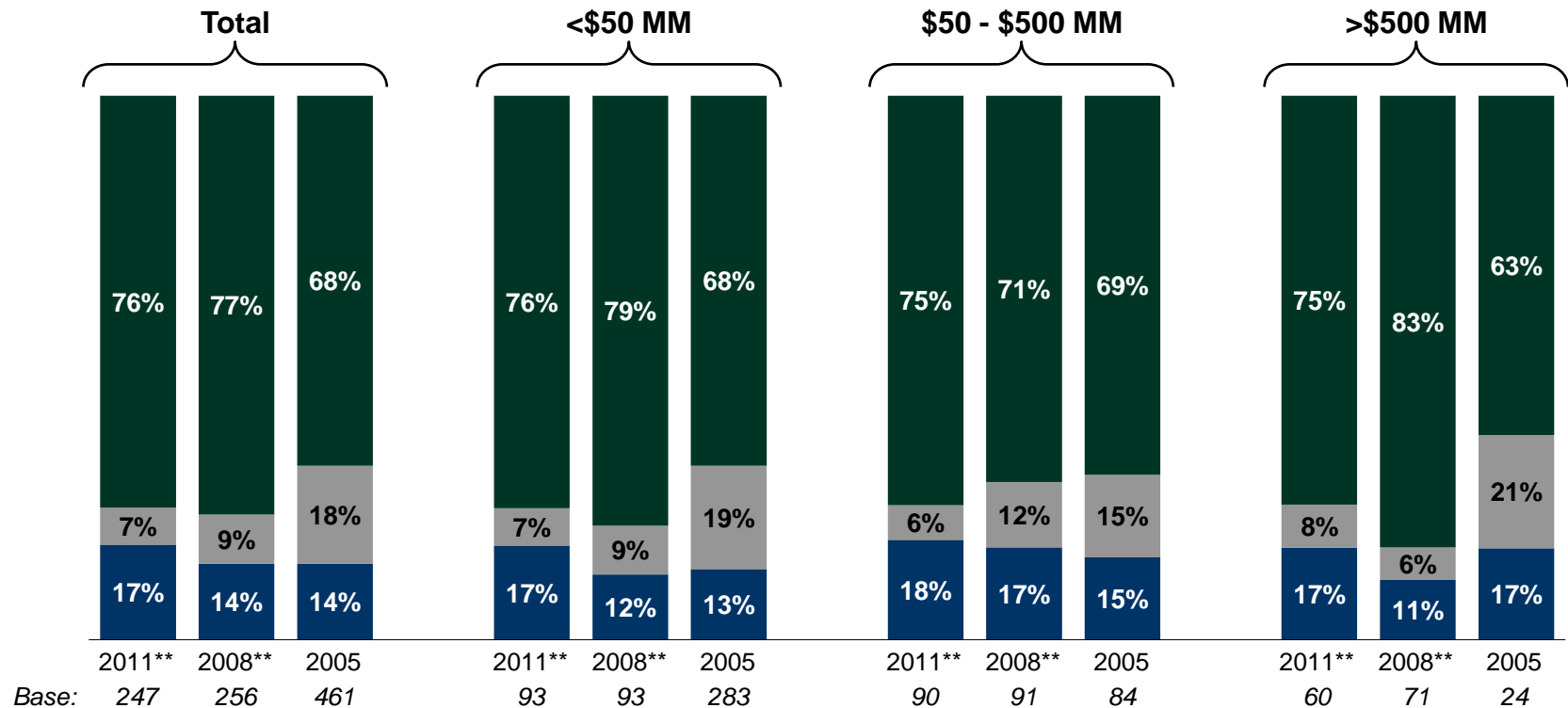


■ Comfortable
 ■ Uncomfortable, not a priority
 ■ Uncomfortable, interested in reduction

Plan sponsor comfort levels: Year-to-year by DB assets

Although sponsors remain more confident in the level of resources, cost, and time dedicated to running their benefit plans than they were in 2005, the feeling of comfort in these areas has held steady since 2008, although it has declined among sponsors of larger plans (>\$500 MM in DB assets).

On an overall basis, which of the following best describes the way you feel about the time, resources, and costs associated with running your benefit plans?* (Total)



■ Comfortable
 ■ Uncomfortable, not a priority
 ■ Uncomfortable, interested in reduction

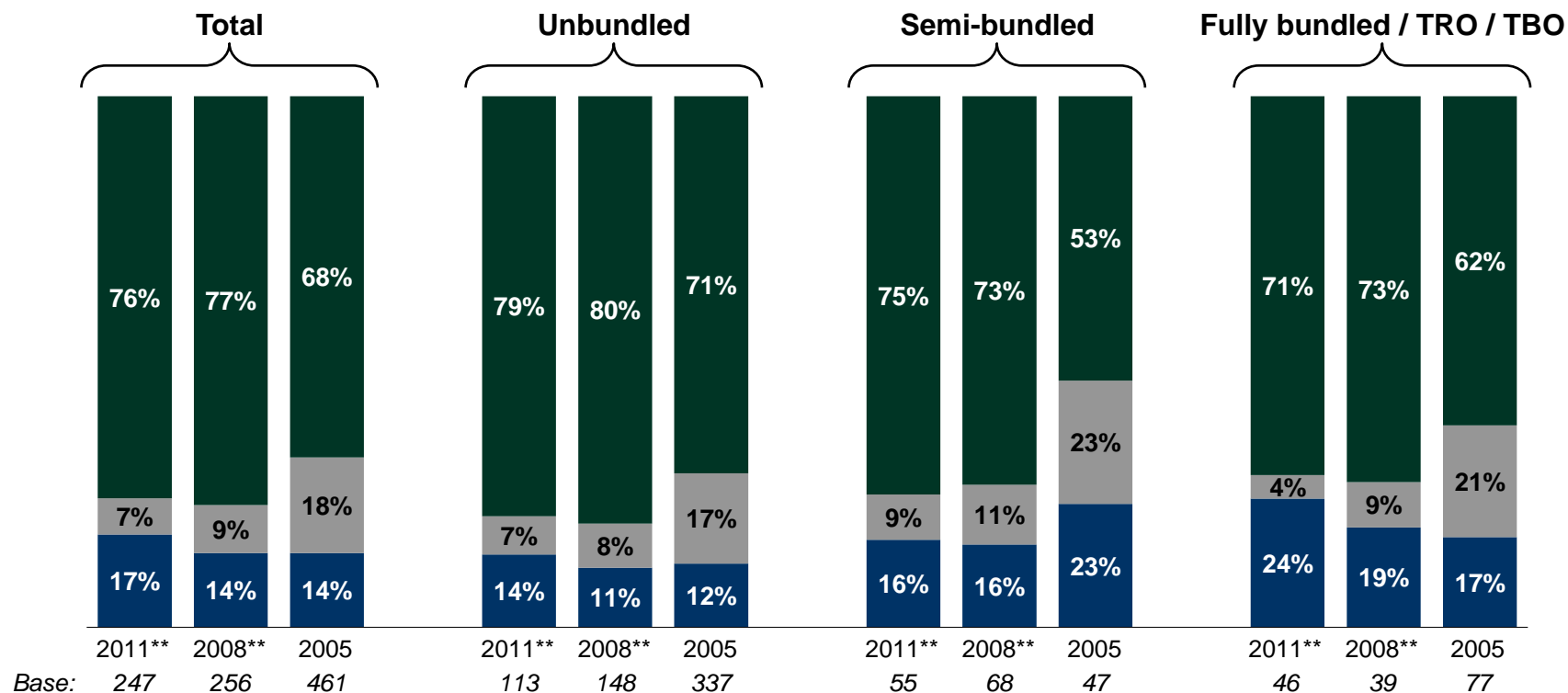
* "Level of expertise" was not included in the 2005 questionnaire.

** 2011 and 2008 data represent average ratings for cost, time, and resources to facilitate year-to-year comparisons.

Plan sponsor comfort levels: Year-to-year by bundling status

Independent of bundling status, sponsors' comfort with the resources, costs, and time spent running their plans exceeds the level of comfort in 2005 and remains similar to industry-wide sentiments in 2008. However, there has been a noticeable increase in the proportion of fully bundled / TRO / TBO sponsors who indicate that they are uncomfortable with and interested in addressing resources, costs, and time.

On an overall basis, which of the following best describes the way you feel about the time, resources, and costs associated with running your benefit plans?* (Total)



■ Comfortable
 ■ Uncomfortable, not a priority
 ■ Uncomfortable, interested in reduction

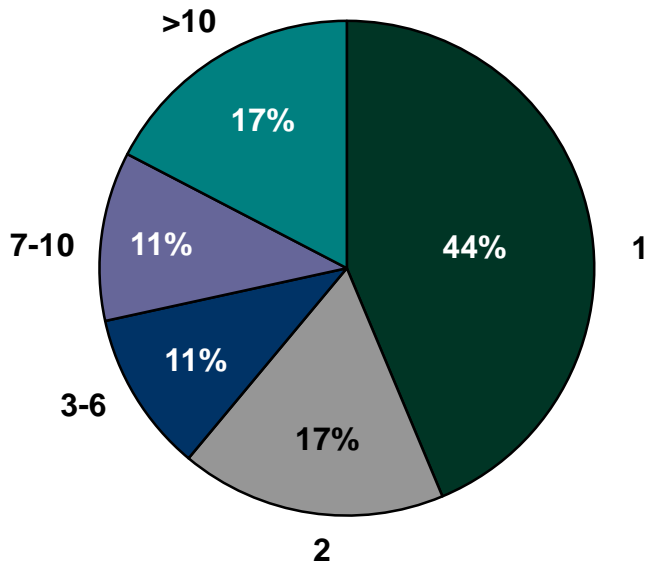
* "Level of expertise" was not included in the 2005 questionnaire.

** 2011 and 2008 data represent average ratings for cost, time, and resources to facilitate year-to-year comparisons.

Investment managers and investment vehicles

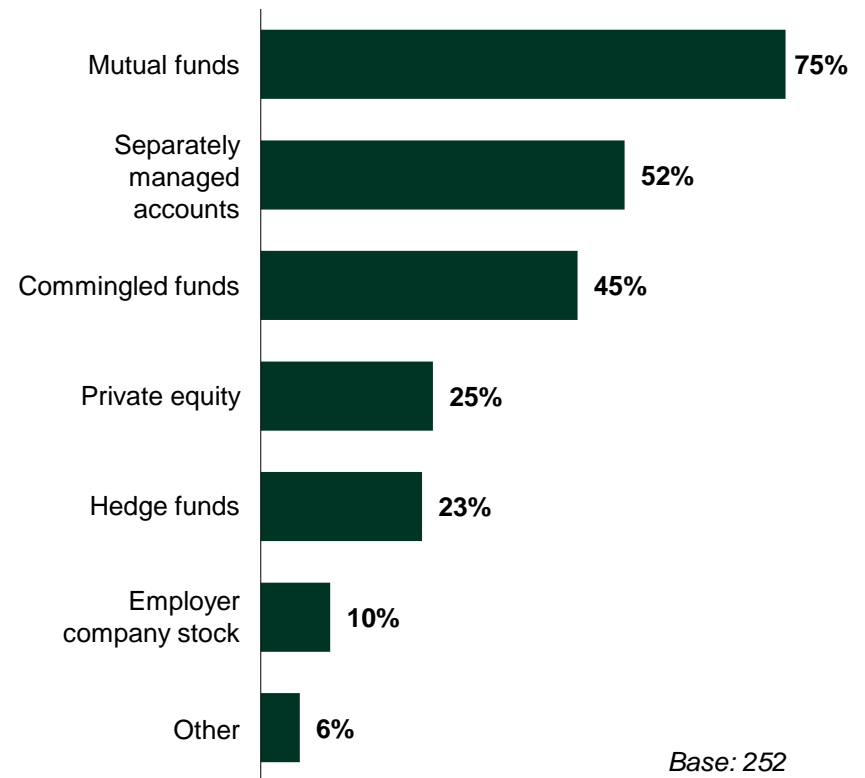
44% of respondents currently use one external investment manager for their DB plans, while 17% use ten or more. Mutual funds, separately managed accounts, and commingled funds emerge as the favored investment vehicles with DB plan investment managers (75%, 52%, and 45% of mentions, respectively).

How many external investment managers does your DB plan currently use?



Base: 190

What types of investment vehicles are you currently using with your DB plan investment manager(s)?



Base: 252

For More Information

- For more information about this study, please contact Peter Starr, CEO of Chatham Partners.

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