

Finding the True Cost

of Insurance Company 401(k)s


Presented by: David Wade, APM, ChFC, CLU, CIMC, AIF
President & CEO, 401kDIRECT



401kDIRECT
800.571.5104

Agenda

1. Know the market – why should we care about Insurance Company Group Annuity Contracts (GACs)?
2. Show how an insurance GAC works
3. Learn how to detect the real cost of a GAC
4. Show how to present your findings to a client
5. End with Q & A



Slide 2 | 401kDIRECT, Inc. © 2010


Know the market

- ▶ 97% of plans are under \$10 million in assets
- ▶ Insurance companies have 75% market share of plans that are less than 3 million
- ▶ Who sells the majority of these plans?




Slide 3 | 401kDIRECT, Inc. © 2010

Who sells the plans?

- Blind Squirrels:
 - 
 - Only 2,500 Advisors have sold over 25 plans or \$100 million — The Elite 5000
 - 2,500 Advisors have sold over 10 plans
 - 15,000 Advisors have sold more than 5 plans
 - 300,000 Advisors have sold between 1-3 plans — Blind Squirrels
- 80% of new plans sold are sold by Blind Squirrels
- Only 2/3 of plans \$5million+ sold by brokers receive service from that broker

Source: "Explaining Poorly Designed 401(k)", January 2nd, 2005, Quote - Fred Barshan "Shouting out the Blind Squirrels", March 9th, 2008, The Weekly Exchange Newsletter

Slide 4 | 401ADIRECT, Inc. © 2010 

Take Away


- Where do I want to position myself for more success in this market?

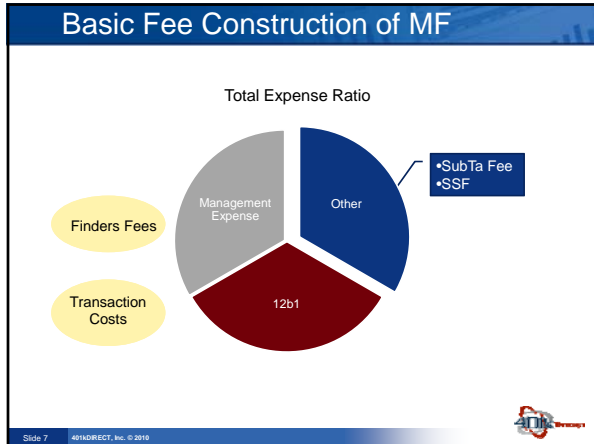


Slide 5 | 401ADIRECT, Inc. © 2010 

Steps to Determine Fees

1. Understand fee construction of Mutual Fund
2. Learn how MF is converted to Group Annuity Contract (GAC)
3. De-code the fine print

Slide 6 | 401ADIRECT, Inc. © 2010 



Why Multiple Share Classes?

Sample Mutual Fund Share Classes

| Share Class | Management Fee | 12b1 | Other | Total |
|-------------|----------------|------|-------|-------|
| R1 | .42 | 1.0 | .10 | 1.52 |
| R2 | .42 | .75 | .44 | 1.61 |
| R3 | .42 | .50 | .13 | 1.05 |
| R4 | .42 | .25 | .09 | .76 |
| R5 | .42 | 0 | .06 | .48 |
| R6 | .42 | 0 | 0 | .42 |

Mutual Fund Conversion to GAC Step 1

| Insurance Contract Number | (1) Fund Expense Ratio/ NAV% | (2) AMC% | (3) Sales and Service Fee% | (4) Expense Ratio/ Unit Value Factor% |
|---------------------------|------------------------------|----------|----------------------------|---------------------------------------|
| 1 | .26 | .50 | Varies | .76 |
| 2 | .26 | .50 | .05 | .81 |
| 3 | .26 | .50 | .10 | .86 |
| 4 | .26 | .50 | .15 | .91 |
| 5 | .26 | .50 | .25 | 1.01 |
| 6 | .26 | .50 | .37 | 1.13 |
| 7 | .26 | .50 | .50 | 1.26 |
| 8 | .26 | .50 | .75 | 1.51 |
| 9 | .26 | .50 | 1.0 | 1.76 |


1) Vanguard Value Index Fund
 1) Investor Share Class - .20%
 2) Admiral Share Class - .15%
 3) Institutional Share Class - .05%
 2) AMC - Administrative Maintenance Charge
 3) Sales and Service Fee - Varies/Fixed (Varied expense will show on Schedule A, Fixed only shown in ER)
 4) Total Insurance Company Expense Ratio - Calculate Unit Value

Mutual Fund Conversion to GAC Step II

Micro Plan Additional Fees


| Insurance Contract Number | (1) Total Fund Expense Ratio | (2) Base Charge% | (3) Participant Fee % | (4) Total GAC* % | Broker Comp % |
|---------------------------|------------------------------|------------------|-----------------------|------------------|---------------|
| 1 | .76 | .60 | 1.0 | 2.36 | 0 |
| 2 | .81 | .60 | 1.0 | 2.41 | .05 |
| 3 | .86 | .60 | 1.0 | 2.46 | .10 |
| 4 | .91 | .60 | 1.0 | 2.51 | .15 |
| 5 | 1.01 | .60 | 1.0 | 2.61 | .25 |
| 6 | 1.13 | .60 | 1.0 | 2.73 | .37 |
| 7 | 1.26 | .60 | 1.0 | 2.86 | .50 |
| 8 | 1.51 | .60 | 1.0 | 3.11 | .75 |
| 9 | 1.76 | .60 | 1.0 | 3.36 | 1.0 |

*Plus TPA Expense
1) Total Insurance Company Fund Expense Ratio to Create Unit Value
2) Base annualized asset charge for plans with less than \$10,000 average participant balance – asset charge starts at .60% and waived after \$2 million in assets
3) Participant Fee \$40.00 for participant annual contribution less than \$5,000
4) Total cost for GAC = Total Fund Expense Ratio + Base Charge + Participant Fee (base charge and participant fee will show in the balance sheet)

Slide 10 401SDIRECT, Inc. © 2010 


Mutual Fund Conversion to GAC -Notes

- ▶ Additional fees may be added before MF is unitized
- ▶ NAV no longer exists
- ▶ Fund values unitized daily – can go up or down
- ▶ Omnibus trading
- ▶ Multiple contracts with varying expenses

Slide 11 401SDIRECT, Inc. © 2010 

Documents to determine fees

- ▶ Original Recordkeeping Agreement
- ▶ Performance Report
- ▶ Balance Sheet
- ▶ Corporate Report to Participant with charges
- ▶ 5500 Schedule A
- ▶ Footnotes pages

Slide 12 401SDIRECT, Inc. © 2010 

Sample Corporate Report

CORPORATE REPORT PARTICIPANT OVERVIEW
FOR THE PERIOD: APR/01/2006 TO JUN/30/2006
& YEAR-TO-DATE: JAN/01/2006 TO JUN/30/2006

| NAME AND ID NUMBER | OPENING BALANCE | EMPLOYEE DEPOSITS | EMPLOYEE CONTRIBUTIONS | TRANSFERS & WITHDRAWALS | EARNINGS | INVESTMENT CHARGES | CLOSING BALANCE (JAN/31/2006) |
|---------------------|-----------------|-------------------|------------------------|-------------------------|------------|--------------------|-------------------------------|
| XXX-001898, ACTIVE | | | | | | | |
| PERIOD | 3,206.39 | | | | | | |
| YTD | 3,822.51 | 0.00 | 0.00 | 0.00 | -129.48 | -6.58 | 2,766.49 |
| GRAND TOTALS | | | | | | | |
| PERIOD | 794,324.12 | 3,439.38 | 486.96 | 0.00 | -13,862.88 | -2,292.79 | 779,186.49 |
| YTD | 794,092.96 | 7,899.11 | 1,331.47 | -1,199.76 | 33,862.88 | -6,411.59 | 779,186.49 |

Another way to determine additional asset charges

Sample 5500

| | |
|---|---|
| <p>\$6034 - Fees paid to the Advisor from asset fee</p> | <p>\$2813 - Fees paid to the TPA from asset fee</p> |
|---|---|

Summary for Determining Fees

- ▶ Ask for all documentation from the client
 - Performance Reports
 - Balance Sheet
 - Corporate Report to Participants
 - 5500 Schedule A
 - Footnotes
 - Original Recordkeeping Agreement
- ▶ Look for fund unit value and determine retail fund share class/revenue sharing available
- ▶ Determine additional asset charges from balance sheet/corporate report

Preparing for a Winning Presentation

- ▶ Starts with fact finding
- ▶ Find out what's in it for them
- ▶ Find out the hot buttons
- ▶ Find out how you are going to make their life better

Slide 19 401(k)DIRECT, Inc. © 2010

Sample Questionnaires

Slide 20 401(k)DIRECT, Inc. © 2010

Presenting a Winning Fee Analysis

- ▶ Client doesn't care how much you know – until they know how much you care
- ▶ Take the complex and make it simple
- ▶ Talk benefits not features – make it personal
- ▶ Differentiate yourself as a consultant by showing multiple options with full fee disclosure
 - Show Existing Plan – include all fees
 - Option A – Apples to Apples – use exact same funds
 - Option B – Better – better fund selection
- ▶ Show win – win for company, plan and participants

Slide 21 401(k)DIRECT, Inc. © 2010

401k DIRECT
ANEC, Inc.
Summary of 401(k) Plan Fee Analysis

| | Rolling Plan | System A | System B | |
|--|--------------|---------------------|---------------------|---------|
| Asset Charge Based on Investment of \$25 | \$2 | \$2 | \$2 | |
| Administration Cost Fee | \$1,000 | \$1,000 | \$1,000 | |
| Accounting/Record Keeping Fee | \$2 | \$2 | \$2 | |
| Admin Fee (Included Plan Assets) | \$2 | \$2 | \$2 | |
| Investment Advisor | NA | Yes | Yes | |
| Delivery Method/Type | NA | Yes | Yes | |
| Risk Management System | NA | Yes | Yes | |
| Voluntary Contribution System | NA | Yes | Yes | |
| Total Expenses Rate Excluded From Assets | | | | |
| Rolling Plan Excluded From Assets of 2008 + 2009 | \$1,000 | \$7,000 | \$3,000 | |
| System A Excluded From Assets of 2008 + 2009 | | | \$3,000 | |
| System B Excluded From Assets of 2008 + 2009 | | | | \$3,000 |
| Outlay/Coling Expense From Assets | | Included in ROL Fee | Included in ROL Fee | |
| Total Annual Fees Paid to Provider | (\$2,300) | (\$3,700) | (\$3,700) | |
| Revenue Share Paid to Provider | (\$1,000) | | | |
| Revenue Share Paid To Your Plan | \$2 | (\$1,000) | \$2 | |
| Net 1st Year Payment to Provider | (\$3,300) | (\$4,700) | (\$3,700) | |
| Net 1st Year Payment to Provider | (\$3,300) | (\$5,700) | (\$3,700) | |
| Net 2nd Year Payment to Provider | (\$2,300) | (\$4,700) | (\$3,700) | |
| Net 3rd Year Payment to Provider | (\$2,300) | (\$4,700) | (\$3,700) | |
| Net 4th Year Payment to Provider | (\$2,300) | (\$4,700) | (\$3,700) | |
| Net 5th Year Payment to Provider | (\$2,300) | (\$4,700) | (\$3,700) | |
| Net 6th Year Payment to Provider | (\$2,300) | (\$4,700) | (\$3,700) | |
| Net 7th Year Payment to Provider | (\$2,300) | (\$4,700) | (\$3,700) | |
| Net 8th Year Payment to Provider | (\$2,300) | (\$4,700) | (\$3,700) | |
| Net 9th Year Payment to Provider | (\$2,300) | (\$4,700) | (\$3,700) | |
| Net 10th Year Payment to Provider | (\$2,300) | (\$4,700) | (\$3,700) | |
| Net 11th Year Payment to Provider | (\$2,300) | (\$4,700) | (\$3,700) | |
| Net 12th Year Payment to Provider | (\$2,300) | (\$4,700) | (\$3,700) | |
| Net 13th Year Payment to Provider | (\$2,300) | (\$4,700) | (\$3,700) | |
| Net 14th Year Payment to Provider | (\$2,300) | (\$4,700) | (\$3,700) | |
| Net 15th Year Payment to Provider | (\$2,300) | (\$4,700) | (\$3,700) | |
| Net 16th Year Payment to Provider | (\$2,300) | (\$4,700) | (\$3,700) | |
| Net 17th Year Payment to Provider | (\$2,300) | (\$4,700) | (\$3,700) | |
| Net 18th Year Payment to Provider | (\$2,300) | (\$4,700) | (\$3,700) | |
| Net 19th Year Payment to Provider | (\$2,300) | (\$4,700) | (\$3,700) | |
| Net 20th Year Payment to Provider | (\$2,300) | (\$4,700) | (\$3,700) | |
| Net 21st Year Payment to Provider | (\$2,300) | (\$4,700) | (\$3,700) | |
| Net 22nd Year Payment to Provider | (\$2,300) | (\$4,700) | (\$3,700) | |
| Net 23rd Year Payment to Provider | (\$2,300) | (\$4,700) | (\$3,700) | |
| Net 24th Year Payment to Provider | (\$2,300) | (\$4,700) | (\$3,700) | |
| Net 25th Year Payment to Provider | (\$2,300) | (\$4,700) | (\$3,700) | |
| Net 26th Year Payment to Provider | (\$2,300) | (\$4,700) | (\$3,700) | |
| Net 27th Year Payment to Provider | (\$2,300) | (\$4,700) | (\$3,700) | |
| Net 28th Year Payment to Provider | (\$2,300) | (\$4,700) | (\$3,700) | |
| Net 29th Year Payment to Provider | (\$2,300) | (\$4,700) | (\$3,700) | |
| Net 30th Year Payment to Provider | (\$2,300) | (\$4,700) | (\$3,700) | |

401kDIRECT, Inc. © 2010

Conclusion

- ▶ Gather all facts including documentation
- ▶ Show client what's in it for them
- ▶ Present benefits not features
- ▶ Ask for the business

Slide 23 | 401kDIRECT, Inc. © 2010

Questions

- ▶ Additional Questions

Please contact: David Wade
401kDIRECT
800-571-5104 ext.100
dwade@401k-direct.com

Slide 24 | 401kDIRECT, Inc. © 2010

Exhibit A

Sample Fee Analysis \$400,000

| | Insurance Plan | Open Architecture |
|---|-----------------|--------------------|
| Advisor Fee Deducted From Assets (1%) | \$0 | \$4,000 |
| Administration Cost TPA | \$3,420 | \$3,420 |
| Record/Keeping fee paid from assets | N/A | \$2,500 |
| Investment Advice | No | Yes |
| Fiduciary Monitoring | No | Yes |
| Risk Management System | No | Yes |
| Fiduciary Compliance System | No | Yes |
| Total Expense Ratio Deducted From Assets | | |
| Insurance Fund Expense Ratio of 1.76% | \$7,040 | |
| Open Architecture Fund Expense Ratio of .20% | | \$1,040 |
| Micro Plan Fees | | |
| Base Charge (.50%) | \$2,000 | |
| Participant Fee | \$3,200 | |
| Custody/Trading Expense From Assets | N/A | Included in RK Fee |
| Total Annual Fees Paid to Providers | \$15,660 | \$10,960 |
| Net 1st Year Payment to Providers | \$15,660 | \$10,960 |
| As Percentage of Assets | 3.92% | 2.74% |
| Savings in Year 1 | \$0 | \$4,700 |

Notes:

Plan assets: \$400,000 Participants: 80 Annual Deposits: \$400,000 Funds: All Vanguard
 Existing Insurance Plan:
 Base Annualized Asset Charge of .50% for Micro Plan Under \$2 million in assets
 Participant Fee: Annual Contribution Under \$5,000 = \$40 per Participant (80x40) = \$3,200
 Open Architecture: Use same investments & setup plan funds at a Trust company with Investment Advisor services.
 *Estimated TPA Fee. Actual fee to be determined by TPA.

Slide 25 | 401KDIRECT, Inc. © 2010



Exhibit B

Sample Fee Analysis \$4,000,000

| | Insurance Plan | Open Architecture |
|---|-----------------|--------------------|
| Advisor Fee Deducted From Assets (1%) | \$0 | \$40,000 |
| Administration Cost TPA | \$3,420 | \$3,420 |
| Record/Keeping fee paid from assets | N/A | \$12,600 |
| Investment Advice | No | Yes |
| Fiduciary Monitoring | No | Yes |
| Risk Management System | No | Yes |
| Fiduciary Compliance System | No | Yes |
| Total Expense Ratio Deducted From Assets | | |
| Insurance Fund Expense Ratio of 1.76% | \$70,400 | |
| Open Architecture Fund Expense Ratio of .15% | | \$6,000 |
| Micro Plan Fees | | |
| Base Charge (.50%) | Waived | |
| Participant Fee | Waived | |
| Custody/Trading Expense From Assets | N/A | Included in RK Fee |
| Total Annual Fees Paid to Providers | \$73,820 | \$62,020 |
| Net 1st Year Payment to Providers | \$73,820 | \$62,020 |
| As Percentage of Assets | 1.85% | 1.55% |
| Savings in Year 1 | \$0 | \$11,800 |

Notes:

Plan assets: \$4,000,000 Participants: 80 Annual Deposits: \$400,000 Funds: All Vanguard
 Existing Insurance Plan:
 Micro Plan Fees Waived
 Open Architecture: Use same investments but Admiral Share Class (.15%) & setup plan funds at a Trust company with Investment Advisor services.
 *Estimated TPA Fee. Actual fee to be determined by TPA.

Slide 26 | 401KDIRECT, Inc. © 2010

