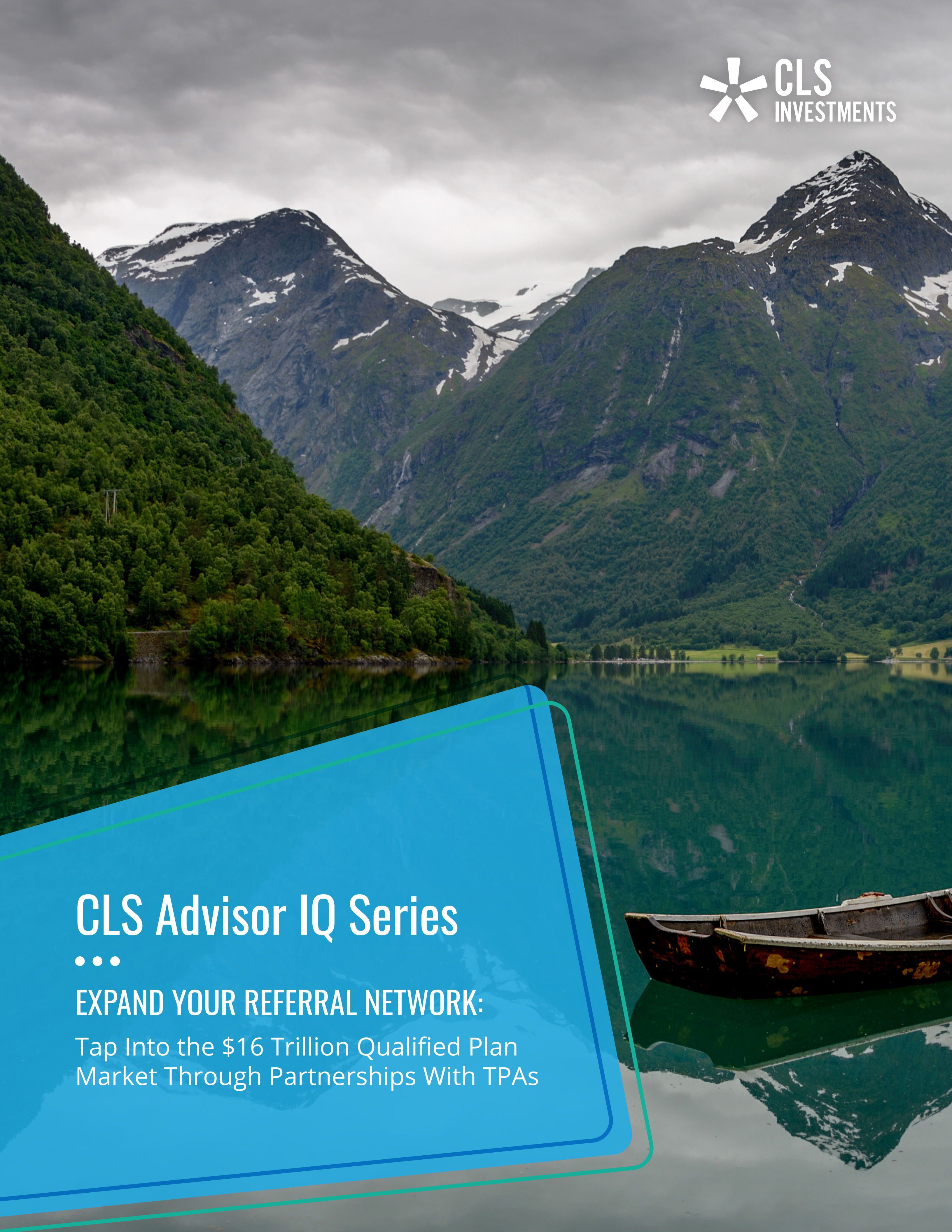

CLS INVESTMENTS

CLS Advisor IQ Series

EXPAND YOUR REFERRAL NETWORK:

Tap Into the $16 Trillion Qualified Plan Market Through Partnerships With TPAs

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Executive Summary

- The $16 trillion qualified retirement plan area represents a growing opportunity for financial advisors, due to its expected growth and current Department of Labor regulatory changes for expanded disclosure and fiduciary status.

- However, the ERISA-governed qualified plan market can be very complex, with numerous rules and requirements that need to be met.

- In order to navigate the opportunities that exist, leading financial advisors are partnering with Third Party Administrators (TPA) and third party money managers to bring a complete solution to plan sponsors and participants. TPAs, due to the central role they play in the qualified market can be a new source of referrals for advisors seeking to grow their businesses.

- To get started working with TPAs and the qualified plan market, advisors need to understand the various roles and responsibilities of the TPA, record keeper, advisor, and third party money manager.

- This report provides a detailed analysis and matrix that can help advisors understand where they fit currently, as well as what resources they need to seek and expertise they need to develop.

- As part of the process of partnering with a TPA, advisors need to conduct detailed due diligence on them to ensure they fit well with their business model. Additionally, it is critical to ensure that the TPA has a solid track record and staff credentials and experience, as well as can provide operational efficiencies.

- At the same time, advisors need to demonstrate to TPAs that they have a commitment to the qualified plan marketplace and a repeatable process. Advisors can develop this expertise by learning from their peers and the case studies contained in this report.

- As Exchange Traded Funds (ETF) are becoming a more popular investment option due to many advantages, record keepers are updating their platforms to accommodate ETFs.

- As a result, industry experts expect an increasing number of plan sponsors to seek out ETF focused advisors and third party "ETF Strategists" money managers.

- Those advisors who can bring a focused effort to the qualified plan market will be well positioned to tap into this incredible opportunity in the coming years.

Introduction

As part of CLS's commitment to helping advisors succeed in today's more challenging operating environment, CLS Investments has identified an exciting growth opportunity in the $16 trillion qualified retirement plan marketplace.

This report will identify the key issues in approaching the qualified plan marketplace, particularly as recent Department of Labor changes and innovative investment platforms are opening up new opportunities for advisors.

Since the qualified plan market can be challenging to navigate alone, partnering with experienced Third Party Administrator (TPA) professionals and third party money managers who specialize in innovative investment vehicles, such as Exchange Traded Funds (ETFs) can be the solution to differentiate an advisor's firm in this competitive marketplace. While many advisory firms are just getting started in this lucrative market, some leading firms are finding great success through these TPA and "ETF Strategist" partnerships.

Historically, advisory firms have built their businesses through referrals from center of influence professionals, such as attorneys and accountants. By targeting the qualified plan marketplace, advisors can discover a new referral partner with local TPAs that can turbo- charge their growth.

We invite you to learn more at www.clsinvest.com.

The Opportunity

According to Cerulli, the qualified retirement plan marketplace in the United States currently represents over $16 trillion in assets. This vast quantity of money is expected to grow by another 40 percent over the next three years, to equal over $22 trillion by 2016.

These staggering numbers and growth rates alone should have advisors stampeding towards the retirement plan marketplace. However, for the most part, they have yet to arrive. There are good reasons for this, as qualified retirement plans, governed by ERISA, can be very complex, with numerous rules and requirements that need to be met. Retirement plans are also a new area of focus for many advisors, since it deviates from their usual individual investor concentration.

There are three key sources of access for advisors into the qualified plan marketplace: current business owner clients, TPAs, and third party money managers.

Most advisors have relationships with many business owners who have retirement plans for their businesses, or are considering offering them. This direct pipeline to the qualified marketplace can be a lucrative place to start.

Another excellent source of potential entry to this market includes TPAs, which assist in retirement plan proposals, plan design, and ongoing administration, making them a critical part of servicing the qualified plan market. TPAs have the experience, knowledge, resources, technology, and staff to ensure that plan sponsors can provide their employees with the retirement benefits they desire.

Leading advisors are expanding their referral network to focus on TPAs, particularly now that the Department of Labor (DOL) has made recent changes that favor advisors who can bring a fiduciary status to bear. That, combined with new disclosure rules mandated by the DOL, means many plan sponsors are re-evaluating their current providers to ensure the fees they are paying are in line with industry benchmarks. This plan evaluation process is creating new opportunities for advisors to be considered as alternative providers, particularly if they can offer the plan innovative investment options, such as ETFs.

By partnering with a third party money manager that acts as a fiduciary and specializes in ETFs, such as an "ETF Strategist," and a TPA, advisors can complete the key functions needed to properly serve the qualified plan market. This combination of advisor, ETF Strategist, and TPA can be powerful to capitalizing on the changes happening in the retirement plan market.

Because ETFs are a relatively new investment option in qualified plans, their current market share is lower than the traditional mutual fund option. However, that is rapidly changing as record keepers are quickly updating their platforms to accommodate ETFs. Due to their many advantages, industry experts expect that ETFs will soon become a staple in retirement programs and plan sponsors will seek out ETF-focused advisors as their preferred provider.

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Getting Started with TPAs

Due to the complexities and legal requirements involved in working with qualified retirement plans, it is important for advisors to partner with key professionals and fiduciary third party money managers to provide a complete solution. To service qualified plans, there are distinct roles that each party plays.

TPAs are responsible for plan design, government reporting, compliance, document services, contribution processing, distributions, and loan administration. They are also responsible for the participant education program, materials development, and implementation of onsite and online educational meetings.

TPAs often partner with a record-keeping platform that provides the participant website and keeps track/administers participant transactions, distributions, loans, access to investment choices, and other administrative items. In some cases, TPAs can also be the record keeper.

Advisors are responsible for selecting the investment options, fiduciary due diligence, developing the Investment Policy Statement (IPS), and partnering with the TPA to deliver the educational programs. Because the role of plan fiduciary is such a visible and important one, TPAs partner with investment advisors and third party money managers to play that role.

There are two ways TPAs service qualified plans: either by bundling all of these providers together in one platform or combining best-in-breed service providers in an “unbundled” fashion. While there are pros and cons to each approach, most TPAs prefer to work in an unbundled fashion so they can replace just one piece (for example, the record keeper) if there are issues with that aspect of the program. Otherwise, in a bundled offering, the TPA has no choice but to replace all components (record keeper, advisor, money manager) and start over with the plan sponsor – a much more involved and “messy” process.

For an at-a-glance view of the specific tasks, roles, and responsibilities involved in the partnership, refer to the chart on the following page.

Roles and Responsibilities

Service Provided	TPA	Record Keeper	Investment Advisor	Plan Sponsor
Consulting and Compliance				
Plan Design	X			X
Goverment Reporting	X	X		
Legislative & Regulatory Guidance	X			
Document Services	X			
Non-Discrimination Testing	X			
General Consulting	X		X	
Record Keeping				
Web Site		X		
VRU		X		
Participant Transactions		X		
Custodial/Trustee Service		X		
Contribution Processing	X	X		X
Distributions	X	X		
Loans	X	X		
Investment Services				
Selecting Appropriate Investment Options			X	X
Fiduciary Due Diligence			X	X
Access to Funds		X		
Investment Policy Statement		X	X	
Participant Education				
Design Participant Education Plan	X		X	
Implement Education Program	X	X	X	
Education Materials	X	X	X	
Onsite Meetings	X		X	X
Web-Based Meetings	X	X	X	X
Review of Participant Education Plan	X		X	X

TPA Due Diligence

There are some key considerations to make when considering partnering with a TPA as part of a qualified retirement plan strategy.

First, it is important to ensure that the TPA is established, has a strong track record (preferably over 10 years) and has an experienced staff with designations such as the American Society of Pension Professionals & Actuaries (ASPPA) and Qualified Pension Administrator (QPA). Second, advisors should research whether the TPA has been successfully audited in the past and has industry certifications, such as Center for Fiduciary Excellence (CEFEX). Lastly, advisors should ensure that the TPA's fees are in line with industry averages and that the organization has references from satisfied clients.

At the same time that advisors should do due diligence on TPAs, TPAs will also want to do their due diligence on advisors. The TPAs will likely be looking for evidence that the advisor is committed to the qualified plan market and has a systematic approach and a repeatable process. This is important to the TPA, as they want to approach their prospects and clients with an experienced advisor who understands the business.

Additionally, TPAs will want to ensure that the advisor will be active in the plan process through participation in participant education programs designed to increase participation and contribution rates.

TPA DUE DILIGENCE CHECKLIST

- *Track record – should have at least 10 years experience*
- *Reasonable fees – not necessarily the cheapest, but not at the high end*
- *Expert staff – skilled, experienced and credentialed (ASPPA, QPA)*
- *Audited with industry certifications – CEFEX*
- *References for client service and enrollment support*

Partnering with TPAs and ETF Strategists

As mentioned, advisors have a terrific opportunity to expand into the qualified plan business through partnerships with TPAs. However, in order to successfully do so, they need to demonstrate to their potential TPA partners their commitment to and engagement in servicing these plans.

Once an advisor and TPA have secured a plan, it is critical that the advisor has resources available for meetings, materials developed, and the overall presence to not only service the plan, but to also grow it.

Engaging consistently with the plan sponsor and participants shows TPAs that the advisor can enhance the overall service to the plan and increase participation. An increase in the number of plan participants will increase the TPA's billable base. Increased assets in the plan will drive incremental revenues for the advisor.

Venturing into qualified plans presents another huge opportunity for an advisor: if the advisor makes him- or herself well-known to plan participants, newly retired employees are more likely to seek out that advisor to discuss rollover options and what to do with their retirement balances. These conversations can often lead to new business development opportunities for advisors.*

Another reason to be actively engaged in educating plan participants is that they often increase contribution deferral rates, which translates into higher plan assets and higher revenues for the advisor. Additionally, plans that incorporate a professional management option give participants a tremendous benefit by allowing them to have their money managed for them verses doing it themselves. Ultimately, plan participants are going to move on due to a new job, downsizing, retirement, or other reason. By being a trusted advisor who delivers educational content along with investment options, advisors can increase their ability to gain rollovers from these plan participants. Advisors can also enhance their positioning with participants through regular education marketing communications that enhance the participants' experience.

Bringing in a third party money manager with expertise in innovative investment options, such as ETFs, will position the advisor as a unique and compelling resource. ETFs are gaining popularity in qualified plans due to their low cost, transparency and efficiencies in portfolio construction. These "ETF Strategists" can provide the fiduciary assistance, along with a wealth of investment options, model portfolios and stand-alone funds. ETF Strategists can also free up advisors from having to spend valuable time on the investment process and redirect those efforts towards servicing and growing their retirement plan business.

GETTING STARTED: A MARKETING CHECKLIST FOR ADVISORS

- Locate a few local TPAs in your area
- Visit with them to understand their operations and responsibilities
- Solicit suggestions on bundled/unbundled providers with whom they work
- Ask to be introduced to the other parties who would be involved
- Once your referral network is established, target companies the meet your criteria
- Establish a plan design and proposal for prospect company
- Coordinate review meeting with the plan committee to review proposal
- Coordinate enrollment meeting with employees
- Schedule quarterly, semi-annual, or annual reviews with the committee and employees

* The DOL has issued guidance cautioning advisers that serve in a fiduciary capacity while soliciting IRA rollovers from and/or "cross-selling" additional products to plan participants. If the adviser uses the authority that makes him/her a fiduciary to cause the participant to take a distribution and invest the proceeds with the adviser that results in additional compensation to the adviser (or an affiliate), it may trigger a prohibited transaction under ERISA and could subject the adviser to significant penalties (e.g., disgorgement, excise taxes, etc.) Thus it is clear that the third party money manager should be the fiduciary, while the advisor should not in order to stay compliant while managing plan rollovers.

Case Study: Chuck Bigbie of Geneos Wealth Management

Chuck Bigbie, CFP®, CLU, ChFC, is the principal of an eponymous financial advisory firm affiliated with Geneos Wealth Management, in Tulsa, OK. Bigbie has over 30 years of experience in the financial services industry, and is currently focused on the retirement planning market. Bigbie oversees $65 million in assets for 120 clients.

"*We teach a retirement planning course at Tulsa Community College and that has enabled us to build a retirement specialty to our practice*," notes Bigbie. "*We educate people on how to create retirement income that will last as long as they do, and that has positioned us to be able to capture not only IRA and rollover accounts, but also identify opportunities with business owners for qualified plans*."

As part of his process, Bigbie partners with a TPA with which he has built a strong relationship to bring a complete solution to the qualified retirement plan market. His key focus is having all the pieces together that are required to service and grow a plan. "*In order to win the business, you need to have the entire plan ready – not only the documents, but also the marketing plan, and the investments, as well as full support from the TPA.*"

Because the TPA is critical to his success, Bigbie counsels advisors to do strong due diligence on their potential TPA partner. "TPAs come in all shapes and sizes, so you really need to understand their business model ahead of time. Do they have a wealth management component that may create a conflict down the road? Do they sell investment products? What specifically do they do? These are all key questions to ask before you start working with them."

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Other areas Bigbie researches about a TPA include:

- Track record
- How long the organization has been in business
- Number of actuaries on staff
- Whether they have marketing materials that explain to prospects who they are
- Whether they have a published fee schedule

Lastly, Bigbie focuses on the operational efficiencies that a TPA can bring to the process. "What has been a game-changer for us is that our TPA has an online proposal tool. I can log into their website, enter some basic information, and immediately receive a detailed proposal that I can share with my prospect," Bigbie says. "If it is a more complex case, all it takes is an email and they can provide a comprehensive proposal very quickly. This has really been a delighter."

Conclusion

The qualified retirement plan market represents a tremendous opportunity for advisors today. By partnering with TPAs and ETF Strategists, advisors can provide a compelling and unique offering to the over $16 trillion marketplace.

Leading advisors are expanding their referral networks by developing relationships with TPAs and building specialties in servicing qualified plans. TPAs can provide an excellent channel into this lucrative market and provide the key components to servicing and growing retirement plans.

As the marketplace is changing due to regulatory changes, the use of innovative investments such as ETFs with their low cost, transparency and ease of use are creating a new opportunity for advisors to approach this market. Through the use of ETF Strategists, advisors can provide a unique program to provide the fiduciary role and differentiate themselves from the competition.

An ETF is a type of investment company whose investment objective is to achieve the same return as a particular market index. An ETF is similar to an index fund in that it will primarily invest in the securities of companies that are included in a selected market index. An ETF will invest in either all of the securities or a representative sample of the securities included in the index.

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