The Sheridan Road Map

The Best Route to Financial Success

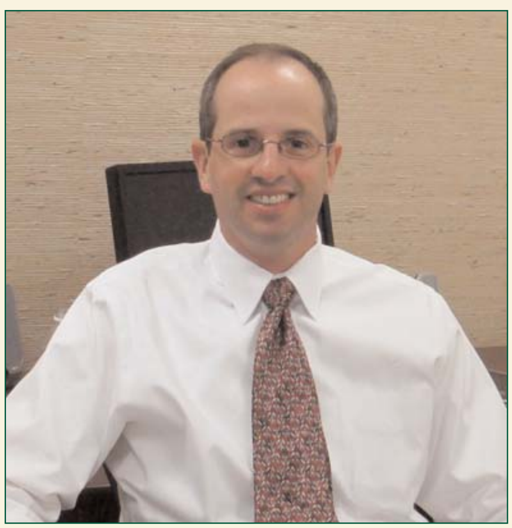
August 2008 Volume 2 • Issue 8

Welcome to the Sheridan Road Map! Your source of monthly insight into the financial world. Sheridan Road provides a one stop financial solution for middle-market companies, their executives and employees. We are the premier provider of Corporate Advisory, Corporate Retirement Advisory, and Wealth Management Services, by providing holistic and independent advice to our corporate and individual clients. The Sheridan Road Map will provide insight into both historical and topical issues, a calendar of upcoming events, industry news and analysis, and a "Friends of Sheridan Road" section which often spotlights a new company that may be of service to our clients. "Let us help you navigate your Financial Road!" Visit us at www.sheridanroad.com.

NEWS RELEASE

Sheridan Road Financial Expands Staff

Sheridan Road Financial announced today the addition of Charles Williams to their staff effective immediately. Mr. Williams will serve as a Managing Director focused on financial planning and wealth management for high net worth clients. He will also be responsible for Sheridan Road's middle market corporate retirement advisory practice, focusing on 401(k) and pension plans up to $50 million in size.



Williams brings to Sheridan Road significant experience managing all aspects of corporate retirement plan design, sales and implementation for clients and has a strong track record of success building and retaining over $120 million under administration and investment management.

"Charles will perform a critical role as we aggressively expand our footprint of serving the needs for individuals and corporate sponsored retirement plans throughout the Chicagoland area and the rest of the country;" said Jim O'Shaughnessy, Managing Partner at Sheridan Road Financial. "At the same time, Charles will also be called upon to help maintain our commitment to service with our existing clientele;" O'Shaughnessy elaborated.

Charles was previously a Senior Investment Advisor/ Retirement Plans Coordinator at Bank Leumi. Charles is currently an Adjunct Professor at the School of Continuing Studies at Northwestern University where he teaches a Retirement Planning and Employee Benefits course to students studying to become Certified Financial Planners (CFP). Charles is a Chartered Retirement Plans Specialist (CRPS), Accredited Asset Management Specialist (AAMS), Chartered Retirement Planning Counselor (CRPC), and Certified Financial Planner (CFP). He holds his Series 6, Series 7, 24, 63, and 65 licenses as well as his life and health insurance licenses. Charles received his B.S. in Finance from DePaul University and his M.B.A. from the Kellstadt Graduate School of Business at DePaul University with a concentration in Marketing.

"We are thrilled to have someone of Charles' caliber and credentials join Sheridan Road. He will help us continue to build upon our reputation as the premier investment advisory firm serving both corporate plan sponsors and individuals;" continued Daniel Bryant, Managing Partner of Sheridan Road.

July 30, 2008

Retiree Benefits Take Another Hit

GM's Plan to End Medical Coverage For Many 65 and Over Signals a New Era; Pensions to Increase by $300 a Month

General Motors Corp.'s move to eliminate retiree health benefits for salaried workers is a sobering signal to the rest of the U.S. work force: Even those who are in or near retirement shouldn't count on keeping the company coverage they have built up.

Since the early 1990s, employers eager to get out from under the increasing burden of covering their retirees' health care have been whittling away at those benefits. At some companies, new or younger workers have been excluded from retiree health benefits. Older workers and existing retirees often got to keep the benefits, but had to pay a larger share of the overall costs.

But GM's announcement Tuesday that it would cease medical coverage for its salaried retirees age 65 and above signals that a new era of ever-shrinking benefits has arrived. Beginning in January, even former employees who are already in retirement will lose their benefits, which most of the company's retirees use to supplement gaps in their traditional Medicare coverage. The auto maker will boost monthly pension payouts to help offset the cuts. The company's unionized workers aren't affected by the cut to retiree health benefits.

GM isn't the first company to do this, but its heft and influence could help usher in further cutbacks at other companies.

Karen Ferguson, director of the Pension Rights Center, a retiree advocacy group in Washington says, "Usually they don't cancel the health insurance — they'll increase the premium, they'll increase the deductibles."

At this point, employees and retirees "have to feel lucky if they still have retiree [health-care] benefits, and have to start planning for when they won't," says Rick McGill, head of retiree medical consulting for employee-benefits firm Hewitt Associates. He says such benefits are "a dying breed."

Many people planning to retire early should consider working at least part-time to keep active employee health coverage until they're eligible for Medicare at age 65, says Mr. McGill. That's because between 20% and 40% of people between 55 and 64 are either denied individual health coverage or forced to pay much higher premiums than the general population. Those 65 and older can save a lot by working a few years longer, he says. Even with Medicare, a 65-year-old couple's out-of-pocket health-care costs could reach $225,000 in their remaining years, according to Fidelity Investments.

GM, battered by slumping U.S. vehicle sales, Tuesday announced a series of moves aimed at raising $15 billion in liquidity by 2009. The auto maker also said it will suspend the dividend it pays to shareholders and cut its production of pickup trucks, among other measures.

In total, GM spent $4.75 billion last year on all its U.S. retirees' health benefits, including hourly workers and those under age 65. It says those retirees or surviving spouses who are affected will get a $300 a month increase in their pensions to help offset some of the costs of relying solely on Medicare, which has less-generous coverage than many private-sector plans. It also is hiring an outside firm to advise retirees on choosing Medicare drug plans, supplemental insurance or private Medicare plans.

The affected salaried GM retirees join a growing number of active or retired workers who lack such benefits. Overall, about one worker in five had access to employer-sponsored retiree health benefits in 2003, down from one in three in 1997, according to the Urban Institute, a research institute in Washington.

Larger employers are much more likely to offer the benefit than smaller ones: About half of Fortune 100 companies offer it, and about a third of companies with more than 200 employees do, a number that has held roughly steady for more than a decade, according to separate tallies from Hewitt and the Kaiser Family Foundation.

Unlike just about every other kind of compensation, such as salary or pensions, retiree health benefits can be taken away even after workers have built them up. Indeed, unless a union contract prevents it, companies typically have a free hand to reduce or eliminate retiree health benefits for both active employees and retirees.

In recent years, many companies have done just that. Some have eliminated retiree health benefits entirely, while others — including IBM Corp., Delta Air Lines and Coca-Cola — have capped the amount the company will pay in premiums, leaving retirees to shoulder the impact of rising health-care costs.

Last year Ford Motor Co. also eliminated health benefits for Medicare-eligible salaried retirees and replaced it with an annual $1,800 stipend that may be used for Medicare and other health-care costs.

Critics, including the older people's lobbying group AARP, have said it is age discrimination to cut benefits just for those over 65, a position that received support from the federal Third Circuit Court of Appeals.

But other federal courts have backed employers, and in December, the Equal Employment Opportunity Commission did as well, after business organizations said companies might instead eliminate all retiree-health benefits, not just those for older workers.

By Vanessa Fuhrmans and Theo Francis • Wall Street Journal, July 16, 2008

What's a 12b-1 Fee?

Retail clients often don't know. Which is why the SEC is going to overhaul how the fees are disclosed and paid out to advisors. And that might render C-shares about as popular as B-shares are today.

For years, regulators have considered altering the 12b-1 fees imposed on mutual funds. But despite hearings and public debate, no new rules have appeared. Now the SEC seems poised to issue a major proposal that would cap 12b-1 fees on C-shares and change disclosure rules. The reforms could be a real hassle for some broker/dealers and advisors, who say it will mean more paperwork, and make it harder for them to provide ongoing service to smaller clients.

According to the Investment Company Institute, the mutual fund trade group, 12b-1 fees generate $12 billion in annual revenue, a major source of income for many firms. And 12b-1 fees on C-shares account for 25% of that. "The fees make it possible for representatives to provide clients with ongoing support," says Robert Hamman, president of First Asset Financial, a broker/dealer in Salina, KS.

The 12b-1 fees first appeared in 1980, and their original purpose was to pay for advertising and promotions aimed at attracting more shareholders for struggling mutual funds. By increasing assets under management, fee proponents argued, the industry could enjoy economies of scale and lower costs for investors. But since then, the role of 12b-1 fees has evolved, and it is now used primarily to compensate advisors.

Arguing that the industry no longer needs the extra income, some critics have called for abolishing 12b-1 fees altogether. But SEC staff members have made it clear that their aim is to reform the fees — not eliminate them. The commission's latest guidance came from Andrew J. Donohue, director of the SEC's division of investment management, who discussed the fees in a speech delivered in April. Donohue said that the rules must be changed so that the purpose of 12b-1 fees is communicated clearly to investors. "Many investors do not understand rule 12b-1, the services that 12b-1 fees pay for, or even the fact that 12b-1 fees are being deducted from their fund investments," Donohue said.

Under typical terms, Class-A fund shares charge a maximum upfront load of 5%, which represents a sales commission paid to the broker. The broker may also receive an annual 12b-1 fee of 25 basis points as long as the investor holds the fund. Investors who choose Class-C shares pay no front-end load, but the fund charges an annual 12b-1 fee of 100 basis points. Class-B shares, meanwhile, are unpopular these days because regulators have frowned on them. SEC staff members have long worried that investors may not choose the share classes most appropriate for them. Many investors who buy C-shares would be better served by selecting A-shares, staff members have argued.

"Changing 12b-1 fees would not serve the interest of advisors or clients." says one advisor.

In his April remarks, Donohue focused on C-shares, saying that the 12b-1 fees should be divided into two categories, with 75 basis points treated as sales loads that pay brokers. The rest of the fee would be labeled as servicing costs. He also called for a capping of these fees. If Donohue's approach wins the day, C-shares could face rules that would resemble the system used for B-shares, which typically charge an annual 12b-1 fee of around 2% for a period of about five years. After that, the shares convert to A-shares, and investors pay an annual 12b-1 fee of 25 basis points.

If C-shares must convert to A-shares after five years, advisors would be forced to rethink how they sell funds, says John Robinson, a financial advisor with Hawaii Wealth Management in Honolulu. As it now stands, C-shares play an important role at many firms. Because of the trailing income from 12b-1 fees on the shares, advisors can profitably manage small accounts, talking to clients and making changes in investments. But without that income, many firms would be hard-pressed to provide personal attention for smaller clients, says Robinson. To cover costs, advisors would switch to fee-based brokerage accounts, or wrap accounts, which often charge more than C-shares do. "Changing 12b-1 fees would not serve the interests of advisors or clients," Robinson says.

Changes in 12b-1 rules could also create additional administrative burdens for advisors and firms. If the fees are treated as loads, as Donohue suggests, then the disclosure documents would have to be changed. Prospectuses might have to spell out the impact that loads would have on returns. And fund companies would need to track exactly when C-shares must be converted to A-shares. While many advisors and fund companies oppose major changes that would result in increased costs and paperwork, there is one improvement that nearly everyone seems to support: devising a new name for 12b-1 fees. "The name itself leads to confusion," says Mellody Hobson, president of Ariel Capital Management, a fund company. "Let's just call it what it is — a distribution fee."

Readers Do It By the Numbers

Smart decisions are based on more than government statistics, agency reports, news releases, interest rates and stock quotes. Here are a few fascinating statistics:

- 54% of workers in the financial services industry say they are "behind schedule" in achieving their retirement financial goals
- 47% of workers across all industries say so
- $59 million is the combined 2006 salaries of the CEOs of Merrill Lynch, Citigroup, Lehman Brothers and Morgan Stanley
- $330 billion is the aggregate decrease in stock market capitalization for these firms over the last 12 months
- The projected cost of Gulfstream Aerospace G650 is $60 million, which will fly at Mach 0.925 and is due for delivery in 2012
- $375,000 is the monthly amount Williams Sonoma pays chairman and CEO Howard Lester to lease his private Bombardier Global Express 5000 jet for the next three years
- $17.94 is the average hourly wage for rank-and-file workers in U.S. as of May 2008
- 400 million Chinese climbed out of poverty between 1990 and 2004
- In 2010 China will have more Ph.D. scientists and engineers than the U.S.
- NYC Mayor Michael Bloomberg has 3,715 "friends" on his Facebook profile
- Of the 118 channels the average cable subscriber pays for, only 13% is actually viewed
- $239 million is the estimated amount that online scam artists stole in 2007, up over 20% from 2006
- 33% of workplaces have a published policy against romance between co-workers
- 14,000 McDonald's Restaurants in the U.S.
- $4.05 is the average cost of a gallon of gasoline in the U.S., as of June 10, 2008
- $8.38 is the cost of gasoline per gallon in England
- $11.44 is the cost of Budweiser beer per gallon in the U.S.
- One industrialized country (Mexico), out of 32 has cheaper gasoline than the U.S.

Sources: 1-2 MetLife; 3-4 New York Times; 5-6 New York Times; 7 World Bank; 8-9 New York Times; 10 New York Times; 11 Bureau of Labor Statistics; 12 FBI Internet Crime Complaint Center; 13 Yahoo Hotjobs; 14 McDonald's; 15-18 International Energy Agency.

Compiled by John Kador • Register Rep, July 2008

Mapping the Wealthy

WHERE MONEY LIVES

	County	Millionaire Households	Population according 2006 Census Data	As % of Pop
1.	L.A. Co., CA	261,081	10.0 million	2.6%
2.	Cook Co., IL.	168,422	5.3 million	3.1
3.	Maricopa Co., AZ	126,394	3.8 million	3.3
4.	Orange Co., CA	115,396	3.0 million	3.8
5.	Harris Co., TX	107,513	3.9 million	2.8
6.	San Diego Co., CA	100,727	2.9 million	3.5
7.	King Co., WA	75,616	1.8 million	4.2
8.	Santa Clara Co., CA	72,932	1.7 million	4.3
9.	Nassau Co., NY	71,869	1.3 million	5.5
10.	Suffolk Co., NY	71,343	1.5 million	4.7

Source: TNS

Registered Rep, June 2008

PD08: Duty Bound

Best Practices for Plan Fiduciaries

Fred Reish, Managing Director at Reish Luftman Reicher & Cohen, offered these words of guidance, "Assume you're a fiduciary until proven otherwise."

During PLANSPONSOR's 2008 Plan Designs Conference, Reish was joined in this discussion by Michael DiCenso, National Practice Leader/President at Gallagher Retirement Services, and **Jim O'Shaughnessy, Managing Partner at Sheridan Road**, with Nevin Adams, Editor-in-Chief of PLANSPONSOR Magazine and PLANSPONSOR.com, serving as moderator. O'Shaughnessy summarized the concerns of their debate and helped to focus attention on an issue facing many fiduciaries today when he asked, "How do we work with plan sponsors and implement something where it's cost effective for the plan sponsor and achieves the end goals?"

While living up to clients' demands and ensuring that they are well-equipped for retirement is difficult, by employing an evolving program that is regularly documented, fiduciaries can at least be assured that they have realized, and possibly even exceeded, ERISA's expectations. "Participants work in the spectrums of maximum fear and maximum reward," said O'Shaughnessy. In order to get results, "you cannot stop being proactive and making sure that you're there for your participants and doing everything you can to be accessible and to provide them with information and make the plan easy and efficient to use," he added.

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