The Sheridan Road Map

The Best Route to Financial Success

March 2010 | Volume 4 • Issue 3

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. "Let us help you navigate your Financial Road!" Visit us at www.sheridanroad.com.

Is Your Broker Mediocre?

It may be a buyer's market, but choosing the best broker is far from easy.

These are bargain-basement days for insurance buyers. In the fourth quarter of 2009, workers'-compensation and general-liability premiums dropped 5.5% and 5%, respectively, from the previous year, according to a survey of 1,100 risk managers by Advisen and the Risk and Insurance Management Society. Even the cost of directors' and officers' (D&O) liability insurance — a tougher market given that corporate boards are in the hot seat — dropped 2.8%.

The soft market makes it tempting to just call brokers for competing bids, sit back, and enjoy the show. Unfortunately, it's not that simple. The recession has left most insurance buyers with substantially altered physical and financial assets, not to mention changed organizational structures and payrolls, all of which require changes in coverage. At the same time, the squeeze on brokers is not an unmitigated blessing for buyers; the competing pressures of shrinking margins and demand for better value have forced brokers to consolidate and cut costs. That means buyers need to be more vigilant, not less, about the underlying health of their broker and the level of service they can reasonably expect.

Arguably it is the largest brokers that have taken the biggest hits from falling insurance prices. At Aon and Marsh, revenues for the nine months ended September 30, 2009, decreased by about $200 million and $300 million, respectively, compared with the same period in 2008. The third top broker, London-based Willis, enjoyed a 5% rise in international fees and commissions during this period, only to see it washed away by a 5% drop in its North American revenue.

The impact on the quality of broker services is unclear. While the big firms cut employees last year, they are not disclosing the number and kinds of staff reductions. Aon's recent restructuring has focused on back-office costs, says a company spokeswoman, and other companies claim that they have made, at most, only modest cuts in client-facing employees.

Broker Checklist

Have you…

- **met with the broker three months before the policy-renewal date?**
- **told the broker about changes in company assets and risks?**
- **decided whether fees or commissions are best?**
- **made sure the broker discloses income from insurers?**

Can Service Remain Unaffected?
Many insurance buyers agree that their brokers have held the line on quality or even improved services. When the fortunes of SunCal Cos., a residential real estate developer, began to head south, "my broker came to me and reduced its fee," says Gordon Adams, the company's director of risk management. "There was no quid pro quo of any kind" from the broker, a Willis specialty-construction unit with which the company had a long-standing relationship. Others note that brokers have become more transparent about fees and now use the Web effectively to communicate policy information to buyers.

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Is Your Broker Mediocre? *(continued from page 1)*

Still, if their down times persist, brokers will be hard-pressed not to reduce service quality. Even cuts in back-office staff can have an impact on service. A continuing shortage of claims handlers, insurance-policy administrators, and office staff could make it tough to get timely responses from your broker when questions about policies arise.

The best way for buyers to avoid delays or unpleasant surprises is to apply a little risk-management discipline to the broker relationship itself. In a soft market, the cost of coverage isn't necessarily a differentiator — instead, you should follow a set of best practices for evaluating and managing a broker.

1. Make sure the broker understands your business. "One of the critical success factors is [brokers'] understanding of our business, so they can acquire the right insurance for us," says Michael Twomey, CFO of Newgistics, a cargo transporter. Most risk managers feel that such understanding is best served by long-term buyer-broker relationships. Large brokerages are likely to have units with deep knowledge of a given industry, but they are more likely than small firms to shift around the people who work for you. Some buyers, like SunCal, which stuck with the same unit when it moved from Aon to Willis, feel that individual brokers are more important than the firms that employ them.

2. Communicate regularly between policy renewal dates. Institute processes so that operating units communicate to internal risk managers any changes that could affect coverage. Such changes could include a new location, new equipment, or a change in cargo to be shipped. Let your D&O broker, in particular, know about possible legal risks stemming from mergers and acquisitions, falling share prices, and product defects.

3. Start early on renewals. If you think you might want to change brokers or make a radical shift in your insurance coverage, get a request for proposal out to potential brokers at least six months before your current insurance expires. If you plan to stick with your incumbent, meet with the broker at least 90 days before renewals to review in detail all exposures. To get the proper coverage, the risk manager should give the broker complete information about the company's assets and operations. In the case of workers' comp, for example, has the workforce shrunk or grown and have new physical activities added new exposures?

4. Decide how to pay your broker. Finance chiefs should keep their companies' current cash and budget needs in "A commission setup improves cash flow, because the insurer pays the broker up front," notes Terry Fleming, president of the Risk and Insurance Management Society and director of risk management for Montgomery County, Maryland. On the other hand, fee-based compensation helps buyers see more clearly what they are paying for.

5. Don't change brokers too often. In a soft market, it is tempting to jump from one broker to another in search of deals. But if you want to develop a solid partnership with your broker, don't switch every year. A reputation for skipping around could hike your premiums or make it tougher to find decent coverage when a hard market returns.

6. Match the brokerage to your company size. Multinational companies need global brokers, as do large national companies. A smaller company might receive more attention from a smaller broker.

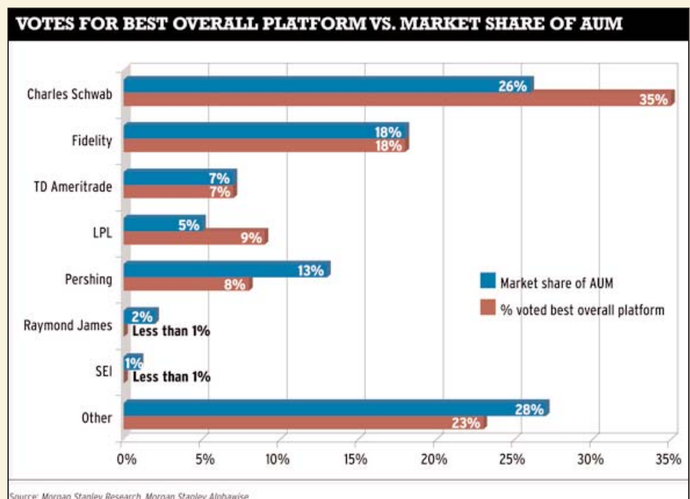
7. Insist on transparency. To make sure that brokers are acting solely in your interest rather than that of the insurer, ask the broker to confirm that in writing. Pay special attention to contingent compensation (extra payments insurers pay brokers based on the performance of their clients' business).

If broker acceptance of such compensation is "warping the decision process, and [the broker] is not really looking at doing a good search of [insurers] out there, that's a problem," says Ron Fior, CFO of Callidus Software, a vendor of sales-performance tools. Not that it's a problem at Callidus: the company's broker, USI Holdings, routinely provides Fior with lists of the dozens of insurers it has contacted.

By David M. Katz • CFO Magazine, March 2010

Assets & Esteem

A recent Morgan Stanley survey of 100 RIAs showed Charles Schwab had earned the largest share of their assets, and their regard as well. But both Schwab and LPL scored higher in ratings than in market share. Analysis suggest this mean the two custodians could see increases in market share over time.



Registered Rep, March 2010

Financial Advisers Bullish on 529 Plans

88% recommend them to clients, survey shows.

Nearly 90% of financial advisers who took part in a recent survey said that they recommend Section 529 college savings plans to their clients.

Out of 216 advisers surveyed by InvestmentNews for the College Savings Foundation, 88% said that they recommend 529 plans to clients, and when they do, they tend to consider both in-state plans and out-of-state plans.

The results of the survey were presented at the foundation's annual conference last week in Miami Beach, Florida.

Among those who don't recommend the plans, 90% said that it is mainly because they prefer other investment options. Almost 60% of the advisers who don't recommend the plans said that it is because they don't like the available investment options.

Most advisers surveyed (79%), however, said that they are well-informed about 529 plans. Those who said that they weren't as well-informed would like more information about the differences among the state plans and how 529 plans fit into an overall financial plan.

They want to know more about using 529s as an estate-planning tool, how 529s affect financial aid, and the relationship of 529 plans to HOPE Scholarships and lifetime learning credits.

One conference attendee said that advisers have to take the initiative to learn about 529 plans in order to do the best job possible for clients. Antoinette Chandler, a senior vice president at Morgan Stanley Smith Barney and a member of the ScholarShare Investment Board, recommended that advisers research available 529 plans, come up with a list of favorites and provide clients with a choice of three possibilities.

"Financial advisers have a lot of power," she said during the conference.

"It is absolutely our job to educate and deliver a very clear and concise message to clients. Clients don't want to do the work, but that's why they're coming to you," Ms. Chandler said.

Those in the 529 plan industry are pinning their hopes on advisers to help boost sales.

According to the results of another survey, this one by the CSF of 49 of the industry participants who attended the conference, the best way to market 529 plans is through advisers.

So far, advisers have been an important driver for 529 plans, which now hold more than $115.4 billion across the United States, according to Morningstar Inc.

Looking forward, industry experts said that they think that given a higher tax environment, 529 plans will become even more popular and, hopefully, even more highly recommended by advisers.

"529 plans will become more important for any family, in any tax bracket, looking to save for college," said Peter Mazareas, chairman of the College Savings Foundation and consultant to AllianceBernstein Investments Inc.

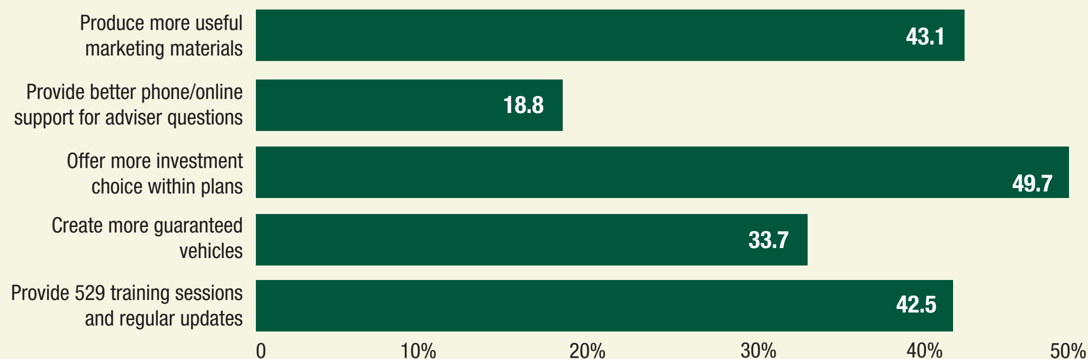
Virtually all of those surveyed by the foundation said they are either "very optimistic" or "somewhat optimistic" about the long-term prospects for 529 plans.

And even in the short term, 59% of conference attendants surveyed said that they are "somewhat optimistic" about the growth of 529 assets and accounts, while 20% are "very optimistic."

Those who are less sanguine are still licking their wounds after the financial crisis, which hit 529 plans hard.

Early last year, the Financial Industry Regulatory Authority Inc. also issued an alert to reps and broker-dealer executives asking them to think twice before selling 529 plans, claiming it was "concerned that investors may be shortchanging themselves by investing in 529 college savings plans with high fees, plans that currently do not offer them state tax benefits, or both."

However, the economic environment is less of a concern this year than it was last year, the CSF survey suggests. Other important concerns for industry participants include poor consumer awareness of 529 plans, their small size overall, relative to some other investment choices, and the plans' operational complexity.



By Hilary Johnson • Investment News, February 28, 2010

Dodd Says Act Now on Financial Reform

As bipartisan wrangling continues, Dodd prepares fight for new consumer agency.

Last month, lawmakers in the Senate were still busy trying to crank out a compromise bill on financial services reform. Senate Banking Committee Chairman Chris Dodd (D-Connecticut) held two rounds of hearings in early February on the recent proposals by the Obama Administration to rein in Wall Street banks, and during those hearings sent an urgent call to action on the need for financial services reform. Dodd said February 5 that he has instructed his staff to begin drafting legislation to bring to the Senate Banking Committee in late February.

Meanwhile, President Obama renewed his push to get healthcare reform back on track via a televised bipartisan discussion of healthcare that was scheduled for February 25.

Noting the impasse that he and Senator Richard Shelby (R-Alabama), ranking GOP member on the committee, had encountered, Dodd was quoted in published reports in mid-February as saying he will now work with Senator Bob Corker (R-Tennessee), a member of the Senate Banking Committee, to hammer out a compromise bill on financial services reform. During the first hearing he held in February on financial services reform, Dodd said that the issues he and Shelby and other members of the committee, "are grappling with are difficult, they are complicated, and they are terribly important. But we have been debating them for months—in fact, some of these issues we've been debating for years in this institution." But nearly two years after the collapse of Bear Stearns, he continued, "we still have not updated the laws governing our financial sector, leaving our fragile economy with the same vulnerabilities that led to the economic crisis in the first place."

Elizabeth Warren, the Harvard law professor and current chair of the TARP Congressional Oversight Panel—who would head the Consumer Financial Protection Agency (CFPA), came out with both arms swinging recently in defense of the CFPA. In a February 8 Wall Street Journal OpEd, Warren railed against the big banks' attempt to quash the CFPA, and said the "latest lie" being told by big bank CEOs is that the CFPA is "big government." The CEOs, Warren said in the Journal opinion piece, "all know that the current regulatory structure, which they support, is big government at its worst: bureaucratic, unaccountable and ineffective. The CFPA will consolidate seven separate bureaucracies, cut down on paperwork, and promote understandable consumer products. In the process, it will stabilize the industry, rebuild confidence in the securitization market, and leave more money in the pockets of families. Complaining about short, readable contracts and efforts to slim down bureaucracy only further diminishes the banks' credibility."

Meanwhile, in the House . . .

In reaction to Warren's Journal article, House Financial Services Chairman Barney Frank (D-Massachusetts) said he welcomed her "making a strong case for increased consumer protection in the financial industry." Frank went on to say that "no one familiar with the track record of the bank regulatory agencies with respect to protecting consumers can deny the need for an independent agency if we are going to have effective consumer protection. Bank regulators have traditionally treated their responsibilities for consumer protection as a second priority." Those, Frank continued, "who cite safety and soundness as a major reason to oppose increased consumer protection have it exactly backwards. In fact, the inability to protect consumers from abuse was a major cause of the financial crisis from which we are just emerging. Professor Warren importantly notes the example of Citigroup's unsuccessful and unilateral attempt to bring fairness to credit card practices. This experience demonstrates that competitive pressures will obstruct reform unless it is done by thoughtful legislation and regulation that applies to all."

Despite reports that Dodd would settle for a watered-down CFPA, Frank said Dodd's intention is "to fight to preserve an independent consumer agency, as we were able to do against the opposition of the financial industry in the House." Frank said the national debate on the CFPA would continue in the coming weeks.

Warren continued her crusade for the CFPA at the National Institute on Retirement Security's policy conference in Washington February 2, in which she told attendees that the CFPA was "essential" in protecting American families, which are "the front end of our economic system." She said the CFPA "would build a floor," and set in place easier-to-understand financial parameters like "two-page credit card and two-page mortgage" agreements. Warren said it was of utmost importance to "strengthen the middle class," stating that "we are not getting ahead on the mortgage foreclosure problem."

By Melanie Waddell • Investment Advisor, March 2010

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