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CONTACT: Mr. Peter Starr
President and CEO
Chatham Partners
(781) 314-0600
pstarr@chathampartners.net

Investment Flexibility and Meaningful Cost Savings are Key to Winning Total Retirement Outsourcing Business

WALTHAM, MA, May 4, 2006 – Plan sponsors are still waiting to be convinced of the merits and advantages of bundling their Defined Benefit and other retirement programs. Sponsors' reluctance is largely founded on the belief that bundling does not deliver true cost savings and bundled arrangements do not offer the same degree of investment flexibility that their current unbundled arrangements provide. As a result, only 13% of plan sponsors intend to bundle their defined benefit plans in the coming 12-24 months. **However, if plan sponsors are convinced of the benefits, over 50% would bundle their DB plans.** Additionally, 67% would integrate the management of their DC and DB programs with a single vendor. These are just some of the major findings of Chatham Partners new report titled "**Next Wave: Opportunities and Challenges in the Total Retirement Outsourcing Market**".

"The marketplace for bundled Defined Benefit and Total Retirement Outsourcing is experiencing growing pains. Service providers have built a vast array of products with advanced features and functionality that, in many respects, has outpaced the sponsor's ability to recognize inherent value. For the past 5-7 years, vendors have been trumpeting the advent of a revolution in how companies can not only manage their DB plans, but also integrate the management of those plans with other retirement and/or benefit programs. Despite the growth of this market, it is safe to say that a revolution has not occurred. Instead, the process has unfolded as an evolution," said Peter Starr, President and CEO of Chatham Partners.

The principal challenge that all providers face, in Chatham's view, is convincing the large body of unbundled plan sponsors of the benefits of bundling. The challenge is generally manifest in two core beliefs held by sponsors who remain unbundled. These beliefs are that:

- 1. Bundling compromises investment flexibility, and**
- 2. Bundling cannot provide cost savings.**

Addressing these perceptions is a strategic imperative to any provider who wishes to move from selling to early-adopters of bundled DB and TRO, to selling to the broader audience that would be willing to bundle services if convinced of the benefits.

Other key findings of the report include:

- 37% of the plan sponsors reported being uncomfortable with the time, resources and costs associated with running their plans; however, only 12% are actively interested in reducing costs. The remaining 25% state that, while uncomfortable, cost reduction is not a priority.
- Plan sponsors who have already made the decision to bundle some of their services are more predisposed to bundling additional services. Almost one-third of sponsors who take a Semi-Bundled route state their intention to bundle additional services within the next 12-24 months.
- Plan sponsors have a common series of attributes they hope to realize through fully bundling their DB plans. These benefits include:
 - Greater cost savings
 - Enjoying greater efficiency and time savings
 - Having a single point of contact
 - Improving the quality of plan sponsor services
 - Having greater vendor accountability
- Moving plan investments into a Bundled solution appears to be a “sticky wicket” that inhibits the growth of DB and TRO bundling. Almost one-third of plan sponsors stated that they would be willing to bundle services to achieve incrementally lower costs. However, less than 15% of sponsors stated that they would be willing to alter their relationships with investment managers/consultants or sacrifice investment flexibility in order to achieve this.
- Vendors have sought to define opportunity in the retirement industry by identifying dissatisfaction with existing vendors may be disappointed. Survey results show little affirmation in this area. Satisfaction levels are generally high for both primary DC and DB vendors. The top two satisfaction ratings average 77% for the primary DB vendor and 83% for the primary DC vendor.

The 123 page report is based on in-depth telephone interviews with a nationally representative sample of 466 sponsors, affiliated with corporate plans ranging in assets from \$1 million to over \$1 billion, and 14 leading service providers. Additionally, Chatham Partners conducted over twenty in-depth interviews with major industry providers.

Chatham Partners, based in Waltham, Massachusetts, provides strategic advisory services and market research to the financial services industry.

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