PRIMERICA

Office of the General Counsel

John S. Watts
Senior Vice President &
Associate General Counsel

Primerica
3120 Breckinridge Boulevard
Duluth, GA 30099-0001

770-564-7613 Phone
770-923-4239 Fax
john.watts@primerica.com

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Via Electronic Mail to e-ORI@dol.gov

Office of Regulations and Interpretations
Employee Benefits Security Administration
U.S. Department of Labor
200 Constitution Avenue, NW
Washington, DC 20210

Re: Definition of Fiduciary Proposed Rule

Ladies and Gentlemen:

PFS Investments Inc. ("PFSI"), a registered broker-dealer and an indirect wholly-owned subsidiary of Primerica, Inc. (Primerica and its affiliates together, "Primerica"), is pleased to submit this supplemental comment on the proposed rule that would more broadly define the term "fiduciary" under Internal Revenue Code ("IRC") section 4975. We focus our comments on the impact of the proposed rule on small- to medium-sized Individual Retirement Accounts ("IRA"s) that are served by Primerica representatives.

Primerica respectfully submits that the proposed rule, while well-intentioned, will cause significant harm to holders of small- and medium-sized IRAs unless it is revised. As documented in a comprehensive market study conducted by Oliver Wyman[1] and discussed in a comment of Daniel R. Fischel and Todd D. Kendall of Compass Lexecon (the "Fischel & Kendall Comment"),[2] the proposed rule will require broker-dealers to fundamentally restructure their IRA businesses, resulting in higher minimum account balances and reduced investor choice. The effect will be to raise costs and decrease retirement savings at a time when holders of IRAs—particularly holders of the small- and medium-sized IRAs served by Primerica representatives—need to save more.

Under current regulations, broker-dealers are compensated in part by commissions and by payments from mutual fund providers and their affiliates, which may be asset-based, per account and/or per position. That compensation is sufficient to give broker-dealers the ability and incentive to serve middle-income families in their communities by providing education about the value of retirement savings and presenting the opportunity to open even small IRA accounts. With the changes made necessary by the proposed rule, broker-dealers may have little incentive

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[1] OLIVER WYMAN, OLIVER WYMAN REPORT: ASSESSMENT OF THE IMPACT OF THE DEPARTMENT OF LABOR'S PROPOSED "FIDUCIARY" DEFINITION RULE ON IRA CONSUMERS (April 12, 2011) (submitted to the Department in connection with this rulemaking) ("Oliver Wyman 2011 Study").

[2] DANIEL R. FISCHEL & TODD D. KENDALL, COMMENT TO THE DEPARTMENT OF LABOR ON A PROPOSED RULE REGARDING FIDUCIARY STATUS UNDER ERISA (April 12, 2011) (submitted to the Department in connection with this rulemaking and attached as Exhibit A to this letter).

to reach out to many middle-income families, as revenue from accounts with small account balances will not generate sufficient fees to cover the costs associated with providing outreach and account services. Significantly, as evidenced by submissions from the Chairs of the Primerica Hispanic American Leadership Council and African American Leadership Council and thousands of African American Primerica representatives, these effects are likely to be particularly severe for minority communities and representatives.

In the face of these potentially significant consequences of the proposed rule, Primerica believes that the record does not adequately justify application of the proposed rule to IRAs. Indeed, the discussion and evidence provided in the Department's Notice of Proposed Rulemaking (the "NPRM") do not address the IRA market at all. Moreover, as articulated in the Fischel & Kendall Comment, the studies cited in the NPRM do not support the view that there is a market problem that justifies regulation, particularly regulation that would effectively eliminate commission-based brokerage arrangements[3] for IRAs.[4] Quite to the contrary, economic and empirical evidence shows that IRA holders are served by a competitive market in which expense ratios have declined steadily for the past twenty years. In such a market, investors can and do make competitive choices among fee structures, with the vast majority of IRA investors choosing commission-based broker-dealer accounts over asset-based advisory accounts. There is no basis to believe that these clear preferences for commission-based accounts are driven by conflicts of interest or that IRA investors are unduly vulnerable, particularly given that the IRA market is now heavily regulated and is subject to suitability requirements. The available evidence demonstrates that the market operating under the suitability standard has generated higher investment returns, lower expenses, more service, and greater choice for IRA investors than would be possible under the proposed rule. There is no reasonable basis to override consumer choice and effectively eliminate the commission-based model now in use through additional incremental regulation, especially when the SEC has stressed that its regulation of the broker-dealer market will be business-model neutral.

Primerica respectfully proposes that the Department should except IRAs from the proposed rule. That is the simplest and most efficient solution and is the solution that effectuates the President's recent directive that agencies take account of costs in their rulemakings and "identify and use the best … and least burdensome tools for achieving regulatory ends."[5] Clarity is particularly important in a market including millions of small accounts because regulatory uncertainty raises transaction costs that are inevitably passed along to individual investors. Absent that straightforward solution, Primerica requests that the Department modify the "seller" exception in the proposed rule to make it clear that it applies to broker-dealers and does not require broker-dealers to take action that would unnecessarily inhibit investors from using their services and obtaining assistance. In all events, the Department should ensure that its laudable efforts to assist American families with retirement savings do not have the unintended effect of harming the very constituencies the rule was designed to protect.

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[3] The term "commission-based" model or arrangement is used broadly in this letter to include an arrangement whereby a firm receives a commission, 12(b)-1 fees, and support and servicing fees from fund providers or their affiliates.

[4] Fischel & Kendall Comment at ¶¶ 35-48.

[5] Improving Regulation & Regulatory Review, Exec. Order No. 13563, 76 Fed. Reg. 3821 (Jan. 18, 2011).

How Primerica Works

Primerica is a leading distributor of basic savings and investment products to middle-income households throughout the United States. Our typical clients are middle-income consumers, defined by us as households with an annual income of $30,000 to $100,000, a category that represents approximately 50% of all U.S. households. As is widely known, the smaller-sized transactions typical of middle-income consumers have induced most financial services companies to focus on more affluent consumers and abandon the middle-income market. Primerica's business model, however, is structured in the interests of the middle-income clients we serve.

Because Primerica offers only limited categories of investment products (mutual funds, variable annuities and college savings plans), our representatives are required to hold only Series 6 and 63 FINRA registrations.[6] Primerica allows its representatives to be part-time, which permits them to earn supplemental income by concentrating on the smaller-sized transactions typical of middle-income consumers. Primerica representatives are independent contractors paid only by commissions resulting from product sales.

Primerica's investment philosophy is geared toward the middle-income market. We teach the long-term benefits of dollar cost averaging through systematic investing into a diversified investment portfolio. To help our customers adopt this approach, our affiliated shareholder servicing entity, Primerica Shareholder Services ("PSS"), facilitates monthly investments into mutual fund accounts on its platform by processing periodic bank drafts against customer checking accounts. In addition to the benefits of dollar-cost averaging, Primerica emphasizes the need to begin saving for retirement as soon as reasonably practicable. As a result, in just about any given year, approximately half of all accounts opened by Primerica are IRAs through which our customers begin or continue the important task of saving for retirement.

To help defray the relatively large account servicing and marketing costs associated with holding smaller-sized accounts typical of middle-income consumers, Primerica receives compensation from the mutual fund families that we offer. PFSI receives marketing and support payments and PSS receives shareholder servicing fees. Each type of compensation is expressly authorized by the mutual fund's Board of Directors and plainly disclosed in the mutual fund information brochure that we deliver to every mutual fund customer at the point-of-sale. Representatives are not informed of the terms of Primerica's agreements with fund companies and therefore are unable to promote funds that pay the firm higher amounts of these fees. Moreover, Primerica does not pass these payments on to its representatives as additional sales compensation.

To the contrary, these payments provide important benefits to consumers because they help to cover the costs of providing services to the middle-income market. These payments defray, in part, the expense of services such as customers' 24-7 internet access to their accounts, customer-service call centers, portfolio analytical tools to assist representatives, the design of asset allocation models, software applications to facilitate trade submission and improve

[6] Virtually all Primerica representatives are also agents of our affiliated life insurance company and hold the appropriate state life insurance licenses.

customer statements, and continual education for our representatives. Moreover, as many fund families pay account servicing fees on a per-position basis (i.e. they pay the same fee for each position regardless of the size of the account), such fees help subsidize Primerica's costs of carrying large numbers of small balance IRA accounts. Absent such subsidy from the mutual fund companies, the actual cost of carrying such accounts would have to be passed directly through to the investors, reducing the attractiveness for a customer to open a small value IRA or our incentive to offer such products. In short, our current ability to receive these account servicing payments encourages smaller account holders—the ones that may be most in need of retirement savings—to open and add to IRAs.

Finally, when guiding a customer through the sales process of mutual fund shares, representatives are governed by FINRA's suitability rule and face regulatory and civil liability if they fail to comply with such rules. FINRA's suitability rule requires that each product we sell be suitable for that customer based on her financial situation and needs.[7]

The Proposed Rule Will Have Harmful Effects on the IRA Market and Middle-Income Investors

The Proposed Rule Will Increase Costs and Require Greater Account Minimums

As proposed, the revised definition creates significant uncertainty as to when and how a broker-dealer representative, operating in the retail market, becomes subject to the prohibited transaction rules affecting fiduciary conduct. In light of such uncertainty, we believe that much of retail brokerage business (including ours) will be forced to migrate from a commission-based brokerage model to an asset-based advisory model. Thus, this uncertainty and concomitant risk will require fundamental changes in the way that market participants such as Primerica structure their IRA businesses and compensate their representatives. Under this new model, broker-dealer compensation would have to be borne entirely by the IRA account, without any subsidy, as an asset-based fee, and fees paid by mutual funds and their advisers would have to be substantially restructured, if not eliminated.[8] Under this new structure, broker-dealers like Primerica that serve the middle-income market would have to raise account minimums, as an asset-based fee may not sufficiently compensate Primerica (or its representative) for the upfront costs of opening and maintaining the small balance accounts. Over 70% of Primerica's IRA accounts currently maintain an account balance of $10,000 or less. Our initial analysis indicates that Primerica would have to raise its minimum account balance to at least $25,000 in order to cover the administrative costs associated with an account and a reasonable annual distribution cost.[9] Such a change would significantly limit the number of middle-income American families that could afford to open an IRA account.

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[7] *See generally* NASD Rule 2310.

[8] It might theoretically be possible that broker-dealers could avoid fiduciary conflicts and receive fees from mutual funds by insuring that an identical amount of fees is received from every mutual fund provider on every type of fund that could be sold to an IRA investor. But it is very doubtful that such arrangements are practical, or that mutual fund providers will cooperate with the effort. Mandating such arrangements would create uncertainty and potential liability that would unnecessarily raise administrative costs.

[9] Oliver Wyman found that investors with less than $25,000 in their account represent approximately half of IRA investors and that those with less than $10,000 comprise over a third. Oliver Wyman 2011 Study at 10.

This effect will be exacerbated under the advisory based model because of increased administrative and compliance costs and significant reductions in fees provided by mutual fund providers. Oliver Wyman's study of twelve retail investment advisory firms that constitute approximately 40% of the IRAs and 40% of the IRA assets in the United States found that the estimated direct costs of maintaining an IRA under an advisory model would rise between 73% and 196%.[10]

The Proposed Rule Will Reduce the Number of Broker-Dealers Willing or Able to Open IRA Accounts

As the costs of opening and maintaining an IRA account rise under the advisory model, minimum account balances will rise and broker-dealers will have reduced incentives to meet with and provide education on saving for retirement to middle-income families. As an initial matter, by moving to an advisory fee model, broker-dealer representatives are unlikely to take the time to educate families about IRAs and retirement savings if those families will not be able to afford the higher minimum account balance. This is because the vast majority of the mutual fund shares that Primerica currently sells are Class A shares, which have a one-time up-front sales charge on the amount invested.[11] This frontloading of compensation incentivizes our representatives to open small-balance accounts. Under the advisory fee model, wherein compensation is "delayed" or "deferred" over time, the incentive to open small balance accounts would be greatly diminished. For this reason alone, we anticipate that many of the smaller IRAs that we now open would not get opened under an advisory model.

Moreover, under the proposed rule, 36% of registered representatives across the United States will be disqualified from continuing to offer IRAs, because under an advisory model, representatives would be required to obtain FINRA Series 65 licenses and/or register with state regulatory agencies.[12] Typically, registered representatives of broker-dealers like Primerica that sell mutual funds to middle-income families have FINRA Series 6 and 63 licenses. The costs of obtaining the Series 65 license are considerable, as the fee for the exam and study courses alone total nearly $350 per person.[13] Given the limitations on the amount and timing of adviser fees that would be charged to smaller account holders, it is unlikely that individual representatives will see getting an additional license as worthwhile. Thus, the proposed rule may result in a dramatic contraction in the number of individuals available to offer IRAs to middle-income Americans and, consequently, may raise costs to investors, cause a significant loss of jobs in the financial services industry, or have the unintended consequence of increasing the number of non-retirement accounts opened.

The reduction in the number of these representatives, who seek to educate middle-income investors about the importance of retirement savings, will have significant ramifications. As studies have shown, middle-income Americans already lack sufficient access to basic retirement planning education. When exposed to the basic concepts of retirement investing, however, a near majority of them respond by changing their behavior and saving more money for their

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[10] *Id.* at 21.
[11] Class A shares also include a small, annual 12(b)-1 fee.
[12] Oliver Wyman 2011 Study at 19.
[13] *See also* Fischel & Kendall Comment at ¶¶ 13-15.

future.[14] With fewer representatives able to offer IRA investments, the critically-important message of saving for retirement will reach fewer American families. And when that message goes undelivered, the data shows conclusively that families do not take adequate steps to save for retirement.[15] In this way, the proposed rule will harm the very people it was intended to protect.

For these and other reasons, the commission-based model, which has been operating for decades, has significant advantages over the asset-based advisory model. But to the extent that the proposed rule is designed to induce investors to adopt an advisory model—an objective we believe is misguided—the evidence indicates that the rule would be ineffective, even for those consumers who could afford to open and maintain advisory accounts. Oliver Wyman's study of the IRA market shows that 88% of all IRA investors in its large sample hold commission-based brokerage IRAs instead of asset-based advisory accounts and that a staggering 99% of investors with assets under $10,000 hold commission-based brokerage accounts.[16] As these facts indicate, these customers choose not to work with asset-based advisers. The proposed rule will not eliminate that preference, particularly where, as described below, a fee-based advisory account will yield diminished returns as compared to other accounts.

The Proposed Rule Will Result in Diminished Returns for Middle-Income IRA Investors

Beyond the effects that the proposed rule would have on IRA costs and the number of representatives willing or able to serve middle-income investors, the evidence demonstrates that Primerica's current commission-based compensation model provides superior long-term investment returns when compared to an advisory model. The great majority of our retirement customers are—to their benefit—long-term, buy-and-hold investors. In its recently published Dodd-Frank report, the SEC staff discussed the fact that buy-and-hold investors would incur greater expenses under an advisory model. The staff report states:

> If, in response to the elimination of the broker-dealer exclusion, broker-dealers elected to convert their brokerage accounts from commission-based accounts to fee-based accounts, certain retail customers might face increased costs, and consequently the profitability of their investment decisions could be eroded, especially accounts that are not actively traded, e.g., fee-based accounts that trade so infrequently that they would have incurred lower costs for the investor had the accounts been commission-based. This practice is commonly referred to as "reverse churning" or "underutilization." Ultimately, reverse churning reduces the profitability of affected accounts to the customers. Between 2004 and 2009,

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[14] EMPLOYEE BENEFIT RESEARCH INSTITUTE, 2010 EBRI RETIREMENT CONFIDENCE SURVEY, *available at* http://www.ebri.org/pdf/briefspdf/EBRI_IB_03-2010_No340_RCS.pdf, at 25 (noting that 44% of households that performed a calculation of how much they needed to save for retirement changed their habits as a result, including, most often, by beginning to save or invest in greater amounts).

[15] *See, e.g.*, *id.* at 1, 16, 22 (40% of American workers are not saving for retirement, less than half have attempted to calculate what they need to retire, and nearly half of those that try to ascertain an amount to save report that they determined how much to save for retirement by guessing); *see also* AARP, AARP BULLETIN SURVEY ON RETIREMENT SAVINGS: EXECUTIVE SUMMARY 4 (April 2009), *available at* http://assets.aarp.org/rgcenter/econ/bulletin_retiresavings.pdf (noting almost half of sample surveyed were not saving for retirement, but that of those that were, 50% reduced or ceased contributions in the prior 12 months).

[16] Oliver Wyman 2011 Study at 11-12.

> FINRA disciplined ten firms in connection with reverse churning, imposing over $7 million in fines and ordering over $9.5 million be paid in restitution to investors.[17]

To illustrate the staff's concerns, we refer to Attachment 1 to the Fischel & Kendall Comment, which reflects a Morningstar hypothetical illustration of investor performance. In the examples, a typical Primerica customer makes an initial investment of $2,000 in a well-known balanced mutual fund inside an IRA, and then contributes $100 per month for 20 years. We compare our existing retail brokerage model where the investor purchases a Class A share that carries a 5.5% up-front one-time sales charge on each investment with an advisory model that imposes an annual 1.5% annual advisory fee.[18] After 20 years our retail investor has significantly more money for retirement. With an initial investment of $2,000, our retail model produces an ending balance of $72,791 (or 8.75% annual return) versus $61,860 (or 7.45% annual return) for the advisory model.[19] The evidence shows that these examples are representative of the overall market. Oliver Wyman's study for SIFMA projects that "small investors" would have to pay an average of $460 more per year if they moved to an adviser model from a broker-dealer model.[20] Accordingly, our existing retail brokerage structure is clearly a superior alternative for our middle-income buy-and-hold investors.[21]

The Proposed Rule Threatens to Create a Significant Decrease in Retirement Savings

In today's market, broker-dealer representatives selling IRA products are frequently the only actors who bring basic retirement savings awareness and education to middle-income American working families. Our thousands of registered representatives are uniquely able to do this because they are members of the communities they serve. Primerica's 16,000 registered representatives are widely distributed across the United States and our experience is that Primerica representatives frequently talk to families who have never before seriously considered or acted upon the need to save for retirement.

We are proud to say that Primerica representatives have played an important part in increasing the retirement savings of American families. According to the Investment Company Institute's 2010 Factbook, 39.3% of American households (46.1 million) have IRAs, and these IRAs have assets of $4.2 trillion.[22] Primerica alone has approximately 1.3 million IRA accounts

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[17] SEC, STUDY OF INVESTMENT ADVISERS AND BROKER-DEALERS AS REQUIRED BY SECTION 913 OF THE DODD-FRANK WALL STREET REFORM AND CONSUMER PROTECTION ACT 152-153 (January 2011), *available at* http://www.sec.gov/news/studies/2011/913studyfinal.pdf.

[18] This illustration focuses only on the costs paid directly by the client.

[19] *See* Fischel & Kendall Comment, Attachment 1.

[20] *See* OLIVER WYMAN, STANDARD OF CARE HARMONIZATION: IMPACT ASSESSMENT FOR SEC 25 (Oct. 2010) ("Oliver Wyman 2010 Study").

[21] This is consistent with FINRA's guidance to its members that fee-based accounts may not be appropriate for all investors, and, in fact, commission-based accounts may be better for investors with a buy-and-hold strategy. *See* FINRA, Fee-Based Compensation: NASD Reminds Members That Fee-Based Compensation Programs Must Be Appropriate, Notice to Members 03-68 (Nov. 2003); *see also* Fischel & Kendall Comment at n. 18 (comparing advisory-fee model to Class C shares and noting commentary that Class C shares may not be appropriate for buy-and-hold investors).

[22] INVESTMENT COMPANY INSTITUTE, 2010 INVESTMENT COMPANY INSTITUTE FACT BOOK 97, 100, *available at* http://www.ici.org/pdf/2010_factbook.pdf ("ICI Fact Book").

for its customers, with a total of almost $18 billion in IRA assets under management. Primerica representatives opened almost 80,000 new IRA accounts just in the year 2010.

Eliminating commission-based brokerage for IRAs under the proposed rule—a loss that will not be made up by asset-based advisory services—inevitably will result in a significant decrease in IRA investments. As noted above, middle-income customers do not currently use asset-based advisers: they are expensive in relation to the small buy and hold investor typified by middle-income Americans and generally yield smaller returns over time. In light of this fact and the substantial costs of obtaining an investment advisory license, many registered representatives will be unable or unwilling to keep servicing this already underserved market segment or will turn to selling alternative forms of investments, including non-retirement accounts. Oliver Wyman estimates that, under the proposed rule, over 8 million accounts would not be opened over the next 20 years because of reduced access to investment advice, resulting in potential foregone retirement assets of 96 billion dollars.[23] That will exacerbate well-documented shortfalls in retirement savings, particularly among middle-income[24] and minority investors.[25]

Minority broker-dealer representatives and the communities they serve are likely to be hard-hit. That is evidenced in letters from the Chairs of Primerica's Hispanic American Leadership Council and African American Leadership Council submitted to the Department in connection with this rulemaking. As those letters conclude, a commission-based IRA model that permits investors to create small initial accounts is of tremendous importance in Hispanic and African American communities, and a model that will sustain and encourage community outreach and education is critical in many minority communities that will otherwise not receive the service they need. As stated in a petition signed by over 2,250 Primerica minority representatives and sent to the Department in conjunction with this rulemaking, an advisory fee model that necessitates higher minimum account balances would not be sustainable in many middle-income communities and would dramatically diminish demand for IRAs. As articulated by seven of our representatives in videotaped interviews posted for the Department at http://www.Primerica.com/public/dol/, our representatives perform a critical function at a critical time, and the proposed rule threatens to deprive some of the most underserved communities of access to much-needed retirement education and savings.

The Proposed Rule Will "Orphan" Millions of IRAs

In addition to dramatically reducing the number of new IRAs opened by middle-income Americans, the proposed rule would impact those families that have already opened IRAs to save for the future. Absent a migration of commission-based brokerage accounts to an asset-based

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[23] Oliver Wyman 2011 Study at 17-18.

[24] *See, e.g.*, MCKINSEY, RESTORING AMERICANS' RETIREMENT SECURITY: A SHARED RESPONSIBILITY, *available at* http://www.mckinsey.com/clientservice/Financial_Services/Knowledge_Highlights/Recent_Reports/~/media/Reports/Financial_Services/Retirement_Security.ashx, at 6-7 (finding that the average American working household will face a retirement savings shortfall of nearly $250,000 by the time of retirement, and that shortfalls are greatest among younger age segments and middle and lower-middle income segments).

[25] *See* ARIEL INVESTMENTS & HEWITT ASSOCIATES, GROUNDBREAKING STUDY REVEALS AFRICAN-AMERICANS AND HISPANICS SIGNIFICANTLY LESS PREPARED FOR RETIREMENT THAN THEIR WHITE COUNTERPARTS (July 7, 2009) (finding that African American and Hispanic workers are less likely to participate in 401(k) plans, and when they do are likely to contribute less than white cohorts).

advisory model, the uncertainty of fiduciary status under the proposed rule would limit a representative's ability to interact with her customer in the same manner she did previously. As a result, existing customers who either do not have an account balance above the account minimum for an advisory account or choose not to move to an advisory model may be forced to close their accounts or leave them dormant. Even for those investors that have account balances that will justify advisory fees, however, these costs will be higher than those formerly imposed under the commission-based model, resulting in diminished returns.

As a result, many IRA investors may be "orphaned," or left without the support of a representative who under the new regime will be willing or able to provide information and education, and may withdraw monies from their accounts (likely incurring a tax penalty as a result). The loss of this relationship with a broker-dealer representative can have significant long-term impacts on investors. Among a sample of nearly half of the IRA market alone, Oliver Wyman projects that approximately 10.7 million IRAs will have insufficient assets to switch to an advisory account at their current firm and 7.2 million accounts would have insufficient assets to move to an advisory account at any firm.[26] This would be a tremendous setback for working families that are using these accounts to save for retirement.

The Proposed Seller's Exception is Insufficient in its Current Form

Absent a full exclusion of IRAs from the proposed rule, one approach to preserving the commission-based brokerage model and our ability to continue to service the middle-market would be to clarify the proposal's "purchasing and selling" exception.

Pursuant to subparagraph (2)(i) of the proposed rule, a person would not be considered an investment advice fiduciary if the person "can demonstrate that the recipient of the advice knows or, under the circumstances, reasonably should know, that the person is providing the advice or making a recommendation in its capacity as a purchaser or seller of a security or other property, or as an agent of, or appraiser for, such a purchaser or seller, whose interests are adverse to the interests of the plan or its participants or beneficiaries, and that the person is not undertaking to provide impartial investment advice."[27] This provision is intended to reflect the Department's understanding that, in the context of selling investments to a purchaser, a seller's communications with the purchaser may involve advice or recommendations that could come under the definition in the proposal, but that ordinarily should not result in fiduciary status if the purchaser knows that the seller has not undertaken to act as an impartial adviser.

This exception should be modified to clearly cover a broker-dealer (and its registered representative), when acting as an agent for an IRA (regardless of whether or not the broker-dealer is also an agent to the counterparty in the transaction), in purchase or sale transactions where the broker-dealer delivers a plain-English disclosure to the IRA owner that describes the

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[26] Oliver Wyman 2011 Study at 16.

[27] We note that as currently proposed, the "Seller's" exception uses the term "adverse." This term does not accurately describe the role of a broker in an agency trade, because the broker is acting as agent for its principal—as relevant here, an IRA. To achieve the goal of alerting the IRA holder to a potential conflict of interest on the part of its agent, it should be sufficient to require full disclosure of the broker's financial interest in the transaction (i.e., the commission or other fees). This is analogous to the approach the Department took under its Section 408(b)(2) regulation, when it determined that financial disclosure obviated the need for conflict of interest disclosure.

compensation that the broker-dealer will receive in connection with such transactions and explains that the broker-dealer is not acting as a "fiduciary" for purposes of IRC section 4975. The standards used for such disclosure could be coordinated with any standards that are developed by the SEC for broker-dealers, as those would be designed to address the specific types of issues that arise in a retail brokerage relationship. This would be consistent with the nature of the exception, as a disclosure-based limitation, making clear the nature of the relationship between the broker-dealer and the customer and what the IRA owner should reasonably expect in its dealings with the broker-dealer. Such a clearly stated exception would provide certainty to the financial services industry and permit broker-dealers to continue delivering the same level of investment services and support to their middle-income IRA customers without raising costs or otherwise pricing such customers out of the retirement market.

The Department Has Failed Adequately to Justify the Proposed Regulation of IRAs

The evidence proffered by the Department in the NPRM does not justify regulation. First, that evidence does not address the IRA market. Though the Department has issued summary statements in its March 30, 2011 "Fact Sheet"—which were not published in the Federal Register as a part of the NPRM—it has offered no specific evidence of the "vulnerability" of IRA investors and offered only general statements regarding the expectations of investors in the IRA market. As discussed below and in the Fischel & Kendall Comment, the Department's cost/benefit analysis and its justifications for the proposed rule do not recognize compelling economic and empirical evidence that supposed conflicts of interest do not, in fact, significantly impact the IRA market. It appears that the Department has failed to make reliable quantitative assessments, relying instead on qualitative judgments that do not accord with the available evidence.

The Department's Analysis of the Costs of the Proposed Rule is Incomplete

As the Department has acknowledged, there are a considerable number of costs that may be imposed on service providers as a result of the proposed rule, but the NPRM merely acknowledges uncertainty with respect to those costs.[28] Thus, the quantification of costs in the NPRM consists entirely of the legal costs the Department predicts will be incurred by certain investment services firms (which, notably does not include IRA providers) in reviewing their current books of business and totals a maximum of $16.7 million.[29] This figure, which we believe is far too low, fails to account for significant costs that would be incurred by employees of these firms or investors who use these firms' services and does not quantify the remaining costs to service providers. As evidenced by the Fischel & Kendall Comment and the Oliver Wyman report, such costs are likely to be very large, far outweighing any benefits of the proposed rule.

As discussed above, a change in the fiduciary status of broker-dealers will require representatives to incur significant time and expense in obtaining a Series 65 license. Beyond the hundreds of dollars necessary to register and obtain study materials for the exam, the time

[28] 75 Fed. Reg. 65275.

[29] 75 Fed. Reg. 65274. We note that the $119/hour cost estimate for legal fees is likely a significant understatement and that, in fact, legal fees could be significantly greater. *Compare* SEC, Proposed Collection; Comment Request, 76 Fed. Reg. 15002 (Mar. 18, 2011) (estimating in-house attorney's fees at $354 per hour).

costs representatives would incur to prepare for and pass the Series 65 exam would likely be significant.[30] Moreover, the NPRM does not attempt to quantify the potential loss of broker jobs or reduction in broker income that may occur for those representatives that do not or cannot take the additional licensing exam.

In addition, while acknowledging that the proposed rule may result in higher costs, the NPRM does not adequately examine the higher investment costs that IRA investors who currently use commission-based services would face under the proposed rule, including, for example, higher fees paid to investment advisors by buy-and-hold investors and increased fees due to the reduction or elimination of third-party fees. With over 31 million households in the United States holding investment assets in commission-based accounts, even a small price increase for consumers would generate significant costs in aggregate.[31] As Oliver Wyman has projected, small investors with between $10,000 and $25,000 in IRA assets would see a 73% increase in direct costs under a fee-based advisory model.[32]

Moreover, while broker-dealers like Primerica are currently able to open accounts with small minimum balances—as low as $250 at Primerica—the proposed rule would require the reduction or elimination of third-party fees and result in significantly higher account minimums—initially estimated to be $25,000 at Primerica. These account minimums would not only prevent a significant number of new investors from entering the market, however, they would also render *existing* accounts "orphans," as a broker-dealer would have to impose the same revised cost structure upon giving new advice to an existing client and many existing investors do not maintain a balance high enough to justify paying such fees. The result would be a potentially significant loss not only in potential new retirement investment but in existing retirement investment. Oliver Wyman has estimated that these losses in retirement savings could prevent over 8 million accounts from being opened and cause investors to lose access to advice on approximately 7.2 million existing accounts.[33] The consequent losses in retirement savings, projected to total more than $96 billion, have not been accounted for in the NPRM.[34]

To the extent that would-be IRA investors do turn to other investments—and studies indicate that approximately half of those required to switch accounts may cash out[35]—because IRAs are tax-advantaged, and because brokerage services provide basic investing information and education to their clients, individuals who choose not to invest in IRAs would likely receive lower returns on their investments. Because the IRA investment market is so large, even a small reduction in returns experienced by investors would generate very large costs, potentially in the billions of dollars.[36]

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[30] See Fischel & Kendall Comment at ¶ 14 (noting that the cost to the industry could exceed $295 million).
[31] Oliver Wyman 2010 Study at 13.
[32] Oliver Wyman 2011 Study at 21.
[33] *Id.* at 16-17.
[34] *Id.* at 17-18.
[35] *See* HEWITT ASSOCIATES, THE EROSION OF RETIREMENT SECURITY FROM CASH OUTS: ANALYSIS & RECOMMENDATIONS 2 (July 25, 2005).
[36] See Fischel & Kendall Comment at 31 ("If, because of effects described above, the Proposed Rule led even 1% of investment assets to be withdrawn from IRA accounts, and if those assets therefore generated 25 basis points lower annual returns (due, e.g., to disadvantaged tax treatment of non-IRA funds or because of the absence of broker

The Evidence Presented by the Department to Establish the Benefits of the Proposed Rule is Not Conclusive

The cost-benefit analysis presented by the Department to justify the proposed rule claims benefits that are "not quantified,"[37] but which the Department believes could be large.[38] The only quantification of benefits provided in the NPRM claims that an improvement in the service value received by investors might be worth $399 million over ten years.[39] This quantification appears to be largely, if not entirely, speculative, as there is no cited study indicating that investors would in fact receive the amount of benefits assumed in the Department's calculation.

The NPRM does cite a Government Accountability Office study and three unpublished academic manuscripts that purport to show that conflicts of interest result in underperformance or an erosion of value and that the elimination of commission payments under the proposed rule would therefore yield some (unspecified) level of benefit to investors.[40] The authors of these studies indicate, however, that their results are far from conclusive on the relevant issues. The authors of the GAO study, for instance, write that their findings "should not be considered proof of causality between conflicts and lower rates of return,"[41] and that "these results cannot be generalized to the population of pension consultants."[42] Similarly, the authors of one of the academic manuscripts cited indicate that their results do not prove that conflicts of interest lead to investor harm and in fact are consistent with "substantial non-tangible benefits derived by the broker distributed sector."[43] Indeed, the authors of these academic studies find evidence that investment advisers and brokers provide significant benefits to their clients in the current regulatory environment.[44]

In any case, however, none of the cited studies specifically analyze IRA investment services. The cited academic literature examines assets purchased by many types of investors, not only IRA investors, and the cited GAO study analyzes data from investors in defined benefit

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services), then the Proposed Rule would generate losses of nearly $790 million in current dollars over ten years using a 7% discount rate").

[37] 75 Fed. Reg. 65270.

[38] 75 Fed. Reg. 65273 ("the Department is confident that service value improvement could be substantial as a result of the proposed rule").

[39] 75 Fed. Reg. 65273 ("If just 10 percent of plans realize a one basis point (0.01 percent of plan assets) service value improvement, it would be worth approximately $399 million over ten years using a seven percent discount rate and reporting in 2010 dollars").

[40] 75 Fed. Reg. 65272-3, n. 29, 30, and 31.

[41] GAO, "Conflicts of Interest Can Affect Defined Benefit and Defined Contribution Plans," GAO-09-503T (March 24, 2009), at summary page ("GAO Study").

[42] *Id.* at 16. The GAO testimony to Congress cited by the Department summarizes this earlier econometric analysis.

[43] Daniel Bergstresser, John Chalmers, & Peter Tufano, "Assessing the Costs and Benefits of Brokers in the Mutual Fund Industry," Social Science Research Network Abstract 616981, Sept. 2007, at 1.

[44] *See id.* ("Brokers may help their clients save more than they would otherwise save, they may help clients more efficiently use scarce time, they may help customize portfolios to investors' risk tolerances, and they may increase overall investor comfort with their investment decisions"). *See also* Xinge Zhao, "The Role of Brokers and Financial Advisors Behind Investments into Load Funds," China Europe International Business School Working Paper, Dec. 2005, at 32 ("[W]hile no load fund investors flock into larger funds with more visibility, load fund investors are more likely to be directed by brokers and financial advisers into smaller funds, which might experience better performance than larger funds exceeding their optimal size").

plans, a category which does not include IRAs, and for which financial services needs are very different than those demanded by IRA investors.[45]

Moreover, none of the cited studies directly addresses the impact that the proposed rule, or any similar rule, would have. Instead, these studies focus on evidence that, in the current regulatory environment, certain investors who employ certain brokers or advisers achieve lower returns on their assets than other investors. Even if valid, this evidence would not be sufficient to conclude that a change in the regulatory environment, as under the proposed rule, would lead to significant benefits, because the proposed rule would change the structure of the industry in a variety of ways not considered by these studies. As discussed extensively above and analyzed in the Fischel & Kendall Comment[46] and by Oliver Wyman,[47] and as acknowledged by the Department in the NPRM, the proposed rule will have potentially significant effects on the IRA market, including increased costs, reduced access, and fewer brokers. The studies cited in the NPRM, therefore, are of only limited weight in predicting the actual benefits under the system that would be in place under the proposed rule.

Commission-Based Conflicts of Interest Do Not Have a Documented Negative Impact on the Current IRA Market

As noted above, over 31 million households in the United States hold investment assets in commission-based accounts, which represents 88% of all accounts held with brokers or advisers.[48] Only 12% of these accounts are with "fee-only" advisers, who do not accept third-party product provider compensation.[49] This strong customer preference for commission-based services in the current regulatory environment is difficult to reconcile with a claim that the providers of these services are consistently providing poor service to their customers, or that additional regulation could significantly increase value provided to investors.

Indeed, the market for IRA investment services is a competitive one, with many firms competing for client accounts and low costs for investors to switch between firms if they feel they are receiving inferior value.[50] This competition significantly restrains commission-based brokers from behaving opportunistically with respect to potential conflicts of interest because such behavior provides competing brokers opportunities to provide higher value, and because competitors can provide "second opinions" to customers as a check on the advice and other services investors receive. As evidence of this competition, average fees and expenses for mutual funds have declined consistently and steadily over time, with an approximately 50%

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[45] While the GAO testimony to Congress cited by the Department discusses the possibility that conflicts of interest may exist in defined contribution plans and may affect investors, the evidence provided in the GAO study focuses exclusively on defined benefit plans. See GAO Study at summary page ("Our study focused exclusively on DB [defined benefit] plans").

[46] *See* Fischel & Kendall Comment. These comments also indicate that the evidence supplied in the cited studies is consistent with the economics of competitive markets without imperfections caused by conflicts of interest.

[47] Oliver Wyman 2010 Study; Oliver Wyman 2011 Study.

[48] Oliver Wyman 2010 Study at 10; Oliver Wyman 2011 Study at 11.

[49] Oliver Wyman 2010 Study at 10.

[50] *See* Fischel & Kendall Comment at ¶ 52.

reduction in fees over the past twenty years,[51] and the average investor pays an expense ratio of 64 basis points less than the average expense ratio charged by mutual funds.[52]

In addition, the business success achieved by IRA brokerage firms depends strongly on the reputation held by the firms and their representatives.[53] To the extent that customers feel they are receiving low value with their current broker due to conflicts of interest or other factors, they will be less likely to continue service with that broker, and less likely to provide referrals of other clients to that broker, restricting one of the broker's major sources of new business.

Recognizing these constraints, IRA brokerage firms like Primerica impose internal controls to insure that their representatives have incentives to provide the highest quality service to clients possible and to avoid conflicts of interest. For instance, Primerica's brokers are not informed of how much marketing and support and shareholder fees a mutual fund provides to Primerica, and therefore do not take that compensation into account when discussing fund choice with investors.

Given these market observations and not only the voluntary constraints adopted by firms like Primerica, but also the numerous constraints imposed under the existing regulatory regime and the suitability standard, there is simply insufficient evidence to establish that incremental regulation of IRA accounts is necessary to address conflicts of interest caused by commissions to broker-dealers. It bears mention, in this context, that the viability of commissions has been acknowledged by the instruction by Congress to the SEC to study an approach to standard of care harmonization under the Dodd-Frank Act that allows for a commission-based business model.

The Department Should Consider Modifications to the Proposed Rule

Given the problems discussed in this letter, Primerica respectfully proposes that the Department modify the proposed rule to preserve the IRA market and consumer choice. First, given the extensive and potentially drastic costs to retirement savings documented by Oliver Wyman and the lack of evidence justifying incremental regulation of the IRA market at this time, we propose that the Department except IRAs from the proposed rule. That is the simplest and most efficient solution. As demonstrated by the unprecedented study of more than 40% of the United States IRA market, the proposed rule threatens to cause a reduction of IRA investment of potentially $96 billion by the year 2030, increasing costs to IRA investors, reducing the number of registered investment advisors and IRA accounts, and diminishing returns to IRA investment accounts. Such costs are staggering, and would disproportionately affect small investors that could not meet increased account minimums, including a substantial number of investors in the minority communities that Primerica's representatives serve. These results are simply not justified by the Department's NPRM, which does not address the IRA market at all and offers only speculative and qualitative estimates of the benefit of the proposed regulation. Indeed, as described in the Fischel & Kendall Comment, there is no evidence that conflicts of interest arising from the receipt of commissions in fact affect the IRA market or work to the detriment of

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[51] ICI Fact Book at 64.
[52] *Id.* at 66.
[53] For evidence on the importance of reputation in this industry, see Fischel & Kendall Comment at ¶¶ 54-56.

IRA investors, and in fact, prevailing market trends indicate that competition in the IRA market is working by reducing average expense ratios and fund costs and fees. In light of these substantial costs and in the absence of clearly-established benefits, we respectfully submit that the Department except IRAs from the proposed rule.

Second, absent our preferred approach of a blanket exception for IRAs, we request that the Department modify the "seller" exception in the proposed rule to clearly cover a broker-dealer, when acting as an agent for an IRA (regardless of whether or not the broker-dealer is also an agent to the counterparty in the transaction), in a purchase or sale transaction where the broker-dealer delivers disclosures intended to both describe the compensation that the broker-dealer will receive in connection with such transaction and explains that the broker-dealer is not acting as a "fiduciary" for purposes of IRC section 4975.

In the absence of offering an effective exception from an expanded investment advice fiduciary definition, the Department has indicated that it may seek to deal with the issues raised by the expanded scope of the definition through its exemption process. We agree that the currently-available class exemptions are not sufficient, in scope or clarity, to deal with the issues, and would be pleased to discuss these matters further with the Department. However, for the reasons discussed above, we believe that the Department's goal of enhancing retirement security will not be met by implementing a rule that will require correction through an exemption process, and respectfully submit that the Department should address any problems with the proposed rule directly. Nevertheless, if this approach is taken, it is critical that any modified or additional exemptions become available prior to the effective date of the expanded definition (at least as to IRAs), to avoid a gap in the availability to IRA customers of brokerage and investment services. Indeed, we respectfully submit that should the proposed rule go into effect before any revised or additional exemptions are in force, the uncertainty facing the IRA market will have harmful effects and cause considerable expense for broker-dealers, representatives, and investors that will not be reparable with the subsequent enacting of an exemption.

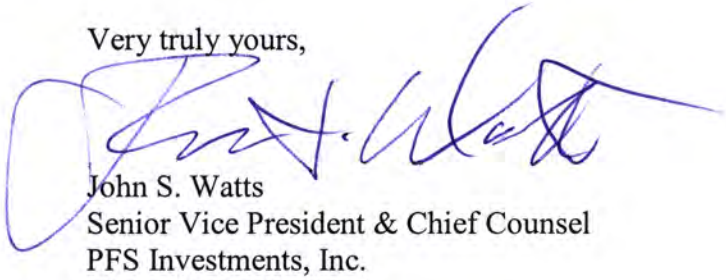
Conclusion

Primerica appreciates the Department's continuing efforts to protect the retirement savings of American families in ERISA-covered accounts. We respectfully submit, however, that the proposed rule to change the definition of "fiduciary" not only under ERISA, but for IRC section 4975 IRAs, will have far-reaching and unintended effects on the retirement savings of millions of American families. Close examination of the IRA market demonstrates that the proposed rule will cause a dramatic shift in the current brokerage model for IRAs and result in significantly decreased access and choice for millions of middle-income families who urgently need to begin or continue saving for retirement. While this impact will spread across the IRA market, raising costs and diminishing returns for investors in IRA accounts of all sizes, perhaps the greatest impact will be on small-account investors. With rising account minimums, increased licensing requirements for broker-dealers, and decreased incentives for representatives to educate potential investors under an advisory model, the proposed rule threatens to immediately and irreparably deny millions of middle-income American families that can only afford to save small amounts of the retirement education and access to investment that broker-dealers currently provide. What's more, the proposed rule threatens to leave those investors who have opened

small accounts with nowhere to turn and no one to consult, leaving orphaned accounts to remain untouched, cashed-out, or transferred to non-retirement investments. We respectfully submit that in the absence of specific evidence that such regulation of the IRA market is necessary or beneficial, and in light of the President's directive that the Department identify the "best…and least burdensome tools for achieving regulatory ends," that these substantial costs warrant reconsideration of the proposed rule as it applies to IRAs.[54] Primerica therefore respectfully requests that the Department amend the proposed rule to allow Primerica and its representatives to continue to assist middle-income Americans in learning about and preparing for retirement. Moreover, given the significance of this issue to the retirement savings of American families and the potential consequences of enacting the wrong rule, Primerica urges the Department to take its time in evaluating the comments.

We appreciate your consideration of these comments, our February 3, 2011 and February 8, 2011 comments, and our testimony at the Department's March 2, 2011 hearing. We remain available to discuss any questions you might have regarding our concerns and would welcome the opportunity to work with the Department to achieve the best results for middle-income families.

Very truly yours,



John S. Watts
Senior Vice President & Chief Counsel
PFS Investments, Inc.
Phone: 770-564-7613
Email: john.watts@Primerica.com

[54] Improving Regulation & Regulatory Review, Exec. Order No. 13563, 76 Fed. Reg. 3821 (Jan. 18, 2011).

EXHIBIT A

COMMENT TO THE DEPARTMENT OF LABOR ON A PROPOSED RULE REGARDING FIDUCIARY STATUS UNDER ERISA

Daniel R. Fischel and Todd D. Kendall

April 12, 2011

COMPASS LEXECON

I. INTRODUCTION AND SUMMARY

1. I, Daniel R. Fischel, am President of Compass Lexecon, a consulting firm that specializes in the application of economics to a variety of legal and regulatory issues. I am also Professor of Law and Business at Northwestern University School of Law and Kellogg School of Management, as well as the Lee and Brena Freeman Professor of Law and Business Emeritus at The University of Chicago Law School. I served previously as Dean of The University of Chicago Law School, as Director of the Law and Economics Program at The University of Chicago Law School, and as Professor of Law and Business at The University of Chicago Graduate School of Business.

2. In the past, I have served as a consultant or adviser on economic issues to, among others, the United States Department of Labor, the United States Securities and Exchange Commission, the United States Department of Justice, the National Association of Securities Dealers, the New York Stock Exchange, the Chicago Board of Trade, the Chicago Mercantile Exchange, the New York Mercantile Exchange, the Federal Deposit Insurance Corporation, the Resolution Trust Corporation, and the Federal Trade Commission.

3. Much of my research and teaching have addressed the law and economics of financial markets, including the proper role of pension plan fiduciaries.[1] I have published approximately fifty articles in leading legal and economics journals and am coauthor, with Judge Frank Easterbrook of the Seventh Circuit Court of Appeals, of the book *The Economic Structure of Corporate Law* (Harvard University Press). Courts of all levels, including the Supreme Court of the United States, have cited my articles as authoritative.

4. I am a member of the American Economic Association and the American Finance Association. I am also a former member of the Board of Directors of the Center for the Study of the

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1. See, e.g., Daniel Fischel and John H. Langbein (1988) "ERISA's Fundamental Contradiction: The Exclusive Benefit Rule", *U. Chi. L. Rev.* 55:1105-60, and Frank H. Easterbrook and Daniel R. Fischel (1993) "Contract and Fiduciary Duty", *Journal of Law & Economics* 36:425-46.

Economy and the State at The University of Chicago, and former Chairman of the American Association of Law Schools' Section on Law and Economics.

5. I, Todd D. Kendall, am a Senior Economist at the aforementioned firm, Compass Lexecon. Previously, I served on the faculty of the economics department at Clemson University. I have published approximately a dozen articles in academic economics journals and collected volumes on the topic of applied economic theory, and which employ statistical and econometric methods. I have been employed at Compass Lexecon since 2008, during which time I have consulted on a wide range of regulatory, litigation, merger and other business matters involving brokerage services, banks, securities exchanges, and other industries. I am a member of the American Economic Association and the Econometric Society.

6. We understand that the Department of Labor (the "DOL") is currently considering a rule (the "Proposed Rule") that would broaden the circumstances under which a person is considered to be a "fiduciary" under the Employee Retirement Income Security Act and the Internal Revenue Code.

7. For the purposes of our analysis, we have been asked by counsel for Primerica to consider the consequences if the Proposed Rule led to fiduciary status where none currently exists for certain companies and their representatives ("commission-based brokers") who provide brokerage and other services to investors regarding individual retirement accounts ("IRAs"), and who receive certain types of compensation paid by third parties providing financial products in connection with IRAs.[2] We have also been asked to assume that, if these commission-based brokers were deemed to be fiduciaries, they would significantly limit their receipt of this compensation.

8. We have been asked by counsel for Primerica to (a) identify any significant costs or benefits of the Proposed Rule other than those presented in the cost-benefit analysis presented by the

2. Throughout this report, we focus on financial services provided for IRA investors, although we understand that the Proposed Rule may also impact service providers with respect to other investment products, such as Coverdell education savings accounts.

DOL in this matter[3]; and (b) evaluate whether the evidence provided by the DOL, or other available evidence, is sufficient to conclude that the benefits of the Proposed Rule outweigh the costs.

9. Our main conclusions are as follows:

- There are several important costs not quantified in the DOL cost-benefit analysis that would likely result from the Proposed Rule, leading to significantly higher costs than estimated by the DOL.
- The evidence presented by the DOL supporting alleged benefits from the Proposed Rule does not provide a sufficient basis to conclude that these benefits would be large enough to outweigh the costs.
- A review of economic theory and available evidence regarding the IRA investment services industry does not support a conclusion that the Proposed Rule would generate benefits large enough to outweigh the costs.

We explain the basis on which we came to these conclusions in the following three sections of this Comment.

10. We understand that Oliver Wyman has also performed a separate analysis of the Proposed Rule, based on proprietary data from 12 IRA brokerage firms, and came to similar conclusions.[4]

II. THERE ARE SEVERAL IMPORTANT COSTS NOT QUANTIFIED IN THE DOL COST-BENEFIT ANALYSIS THAT WOULD LIKELY RESULT FROM THE PROPOSED RULE, LEADING TO SIGNIFICANTLY HIGHER COSTS THAN ESTIMATED BY THE DOL.

11. The DOL cost-benefit analysis estimates the monetized costs of the Proposed Rule at between $15.6 million and $16.7 million.[5] This figure is based on an estimate of the legal costs that financial service providers would incur for a compliance review of their books of business under the Proposed Rule. Undoubtedly, financial service providers and their representatives would incur significant compliance costs in complying with new regulations. We have not attempted to fully

3. 75 Fed. Reg. 62570-8 (2010-10-22) (hereafter, "DOL cost-benefit analysis").
4. Oliver Wyman (2011) "Assessment of the Impact of the Department of Labor's Proposed 'Fiduciary' Definition Rule on IRA Consumers", April 12, 2011.
5. DOL cost-benefit analysis, *supra*, at 65274, Table 2.

evaluate the accuracy of the monetized cost estimate provided by the DOL with respect to legal compliance costs; however, we believe it may be understated for at least two reasons. First, this estimate does not appear to incorporate the potentially very large additional legal costs financial services firms would likely incur to defend against litigation associated with their new status as fiduciaries, even after a full review of their books of business, or to purchase fiduciary liability insurance. Second, the DOL estimate is based on an assumption that affected firms would require a certain number of hours of legal professional time, valued at $119 per hour.[6] We understand that this rate is substantially lower than the rate assumed by other government agencies. For instance, using a rate consistent with that assumed by the Securities and Exchange Commission ("SEC"), which recently valued legal professional time at $354 per hour[7] would increase the DOL's estimate of the monetized costs of the Proposed Rule to between $46.5 million and $49.7 million, using the same discount rates employed by DOL.

12. In any case, the DOL cost estimate does not incorporate several important costs besides legal services that would likely result as a consequence of the Proposed Rule. Specifically, the DOL cost-benefit analysis does not quantify likely potential costs of the Proposed Rule due to (a) higher certification requirements for IRA service providers, (b) increased expenses paid by IRA investors, and (c) lower returns on investors' retirement funds. As we discuss below, the potential size of these effects is large. In addition, there may be other costs besides those that we describe here; however, we believe these three illustrate the potential for costs associated with the Proposed Rule significantly higher than estimated by the DOL.

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6. DOL cost-benefit analysis, *supra*, at 65274.
7. 76 Fed. Reg. 15003.

A. Costs Due to Higher Certification Requirements for IRA Service Providers Would Likely Rise Significantly Due to the Proposed Rule.

13. We understand that many representatives of broker-dealer firms that currently provide services to IRA investors do not currently hold the certifications necessary to operate as fee-based investment advisers, and that if the Proposed Rule were implemented, these representatives would need to gain additional certification in order to continue to serve their clients or attract new clients. The DOL cost-benefit analysis does not appear to take into account the significant costs that would be incurred by investment professionals in studying for and passing the certifying exam.

14. To illustrate the potential size of these costs, we understand that Primerica currently has 233 agents who hold a Series 65 license that would qualify them to provide advisory services if the Proposed Rule was implemented, in comparison with approximately 16,000 agents who do not currently hold that license. Based on what we believe is a conservative estimate of 50 hours of study and preparation time that would be required on average for an individual to prepare for the Series 65 exam, and valuing that time at the 2009 median hourly wage for personal financial advisers, $32.79,[8] if 60% of Primerica's agents chose to become investment advisers after the implementation of the Proposed Rule, the additional cost incurred would be $15.7 million (= 16,000 X 60% X 50 X $32.79). Of course, this calculation is necessarily a rough approximation, but it does indicate that the cost of additional certifications alone could easily double, if not more than double, the DOL's estimate of the costs associated with the Proposed Rule, especially considering that this figure is based on the representatives of only one company among many in the industry. Industry-wide, we understand that there are more than 300,000 registered representatives in the U.S. which are not licensed to provide advisory services;

8. Bureau of Labor Statistics May 2009 National Occupational Employment and Wage Estimates, available online at http://www.bls.gov/oes/current/oes_nat.htm#13-0000.

therefore, the costs calculated above, extrapolated to the entire industry, would reach over $295 million.[9]

15. This estimate also does not include other potentially large economic losses associated with the higher certification requirements. First, faced with the costs of new certification, many brokerage representatives would likely choose not to acquire the necessary certification and therefore potentially leave the industry. Moreover, we understand that brokerage representatives are one of the only sources of financial information some investors encounter, so even aside from the other effects we discuss below, fewer professionals employed in the industry could lead to lower levels of retirement savings and lower (or even no) returns experienced by these investors.

B. Expenses Paid By IRA Investors Would Likely Rise Significantly Due to the Proposed Rule.

16. More importantly, the Proposed Rule would likely significantly increase the expenses paid by IRA investors for several reasons. First, under the Proposed Rule, firms that currently do not have fiduciary status with respect to their IRA customers would become fiduciaries. This would create additional costs for these firms to acquire and maintain new client accounts, due to the increased compliance costs associated with fiduciary status, and more importantly, the heightened risk of litigation faced by fiduciaries. Economic principles indicate that at least some of these costs would be passed on to investors in the form of higher prices to open and/or maintain IRA accounts. A basic principle of economics is that prices charged by firms in an industry will rise if firms face an increase in per-unit or per-client costs, such as that the increased costs associated with compliance and litigation risks.[10]

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9. 300,000 X 60% X 50 X $32.79 = $295.1 million.

10. See, e.g., Robert E. Hall and Marc Lieberman, *Economics: Principles and Applications, 4th ed.*, at 251. The key exception to this principle would be in an industry in which consumer demand is infinitely elastic, for instance, if there is a perfect substitute for the good, such as black pens for blue pens. It is unlikely consumers perceive any perfect substitutes for financial services.

Therefore, it is likely that IRA investors will incur higher expenses under the Proposed Rule than they do now.

17. In addition, in the current regulatory environment, commission-based broker-dealer firms share the costs of opening and servicing IRA accounts with third-party providers of financial products. In practice, the way this sharing of costs occurs is that broker-dealer firms incur all of the costs up front, and then are partially recompensed by third-party product providers through commissions and other payments. We understand that this cost-sharing constitutes an important part of brokerage firms' business model.

18. Under the Proposed Rule, we understand that broker-dealers handling IRA accounts may be substantially restricted from receiving many forms of compensation from third-party product providers; in other words, they would no longer be able to share costs, and so would incur all of the costs of opening and servicing accounts themselves. Commission-based brokers would, in essence, face an increase in the cost of providing IRA investor services. As noted above, economic principles indicate that this increase in costs would likely cause prices to rise. At the same time, it is possible that, in the absence of commission payments, third-party product providers would reduce prices charged directly to investors, potentially offsetting to some degree the higher prices charged by brokers.[12] In connection with the Proposed Rule, the DOL has not presented any study of the overall impact that the elimination of this form of cost-sharing would have on total expenses paid by investors (nor are we aware of any conclusive evidence on this question from other sources), which is a key parameter necessary in order

12. While in theory, the decrease in costs faced by third-party product providers could be fully passed on to IRA investors, there are several industry-specific reasons why this effect would be unlikely to fully offset the increase in fees charged by financial services firms. First, investors who purchase through commission-based services represent only a fraction of total demand for these products, and costs faced by product providers from other distribution channels would not fall due to the Proposed Rule; in other words, to the extent that product providers experience decreases in costs due to the Proposed Rule, those savings would be spread out across all purchasers of the product, not only those who buy through commission-based services. Second, in the absence of payments to brokers, product providers may invest more in direct-to-consumer advertising or other methods of marketing.

to assess the full costs of the Proposed Rule. Nevertheless, this effect provides an additional reason, besides those mentioned above, why investors would likely face higher expenses in opening and/or maintaining IRA accounts under the Proposed Rule.

19. Available evidence is consistent with the premise that prices will be higher under the Proposed Rule. In the current regulatory environment, IRA investors can choose between broker-dealer firms offering commission-based service and certain other firms that provide "fee-only" service, in which advisers act as fiduciaries and forego most or all third-party commissions. While the fees any given investor pays usually depend somewhat on the details of his investments, as a general matter, a comparison of typical fees charged by the two types of service providers suggests that most IRA investors would incur higher expenses at fee-only firms than at commission-based firms, consistent with the notion that fiduciary status and the absence of third-party compensation result in higher expenses to investors.[13]

20. Primerica's fee structure, which we understand is typical for commission-based firms, charges investors a front load that is a percentage of assets purchased, with 5.5% being a typical rate, and then a custodial fee of $20 each year the account remains open.[14] By comparison, we understand that a typical fee-only adviser charges investors an annual fee calculated as a percentage of assets under management, with 1.5% being a typical rate, as well as an additional custodial fee similar to that charged by commission-based firms. While investors who make frequent trades or who have very short investment horizons may save through the use of fee-only services, investors who buy and hold

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13. We understand that fee-based advisors typically provide additional services to investors not provided by commission-based brokers, and a full analysis would account for added value received by investors from these additional services; however, IRA investors, who primarily employ "buy-and-hold" strategies, typically have relatively few ongoing needs and so would be unlikely to benefit greatly from these services. Moreover, it is presumably the case that the additional benefits most commission-based account holders would receive with fee-based service would be lower than the additional expenses they would pay; otherwise, they would be employing fee-based advisers currently.

14. We understand that the size of the front load often declines when accounts reach a certain size.

investment assets for long periods, as IRA investors generally do, will typically pay lower fees with a commission-based service.[16] This is because, on a continuing basis, they pay only a low custodial fee every year instead of a percentage of an account which continues to grow in value (along with a similar-sized custodial fee).

21. For instance, consider an investor who opens a $2,000 IRA account invested in a typical balanced equity and mutual fund, and adds $100 per month to the account. Attachment 1 shows how the value of this investment, made in March 1991, would have grown over the following 20 years, with (a) a typical commission-based brokerage service charging a 5.5% front-load, and (b) a typical fee-only advisory service charging 1.5% annual fees.[17] In this example, the value of the investment would be higher under the commission-based service by June 1996, or in other words, so long as the investor held the IRA for more than five years and two months. As shown in the bottom panel of Attachment 1, by March 2011, the value of the investment under the commission-based expense schedule would be $10,931 higher than under the fee-only expense schedule.

22. Consistent with this analysis, a 2010 Oliver Wyman analysis performed for SIFMA found that, based on actual fees charged by 17 retail brokerage firms, typical investors would pay between 23 and 37 basis points more with fee-only accounts than with commission-based accounts under the current fee structure annually.[18]

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16. The findings of the SEC's recent study of investment advisers and broker-dealers is consistent with this argument. See Securities Exchange Commission, "Study on Investment Advisers and Broker-Dealers", January 2011, at 152 (stating "[i]f, in response to the elimination of the broker-dealer exclusion, broker-dealers elected to convert their brokerage accounts from commission-based accounts to fee-based accounts, certain retail customers might face increased costs, and consequently the profitability of their investment decisions could be eroded, especially accounts that are not actively traded").

17. The underlying data from Morningstar used in this summary table is also attached. This analysis is based on an investment in Invesco Van Kampen Equity and Income Fund, Class A shares, and assumes all dividends and capital gains are re-invested in the fund. Since annual custodial fees are typically similar between commission-based and fee-only services, we ignore these here.

18. Oliver Wyman (2010), "Standard of Care Harmonization: Impact Assessment for SEC", October 2010.

23. The comparison between investor expenses under a commission-based brokerage service and expenses under a fee-only adviser service is analogous to a widely-accepted difference between investor expenses associated with the purchase of "class A" and "class C" mutual fund shares. Many funds offer multiple classes of shares, which differ only in the structure of the fund's expenses charged to investors. Typically, with "class A" shares, funds charge investors a front load fee, but then low annual fees on a continuing basis, while with "class C" shares, funds charge little or no front load, but higher annual expenses while holding the fund. It is widely noted that long-term "buy-and-hold" investors, which includes most IRA investors, pay lower fees by purchasing class A shares than they would with class C shares.[20] Analogously, most IRA investors pay lower fees with commission-based brokerage services than with fee-based advisory services.

24. Since IRAs are one of the primary means by which Americans save for retirement (38% of those saving for retirement hold IRAs)[21], even a small increase in fees on these accounts would impact a significant number of investors and lead to a large increase in costs in aggregate. In 2009, there was $4.2 trillion held in IRAs.[22] We understand that, based on the industry data analyzed by Oliver Wyman, they concluded that 66% of even the largest IRAs (those with more than $250,000 in assets) are held in accounts with commission-based brokerages, with this share much higher for smaller IRAs.[23] Even applying the low 66% figure to all IRA assets, if the Proposed Rule led to even a 1 basis point increase in annual costs relative to assets for these investors, it would generate $277 million (= 4.2 trillion X 66% X 0.01%) in additional expenses for investors annually, or over $2 billion over 10 years in current dollars,

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20. See, e.g., FINRA, "Investor Alert: Understanding Mutual Fund Classes", Oct. 6, 2008, available at http://www.finra.org/Investors/ProtectYourself/InvestorAlerts/MutualFunds/p006022 (stating that for purchasers of class C shares, "in most cases, your total cost would be higher than with Class A shares, and even class B shares, if you hold for a long time"). See also Brian K. Reid and John D. Rea, "Mutual Fund Distribution Channels and Distribution Costs", *Perspective* 9(3), July 2003, at 13 (stating, "… investors subject to the maximum front-end sales load would prefer C shares for short and intermediate holding periods. Investors with a long investment horizon would choose A shares").
21. AARP, "AARP Bulletin Survey on Retirement Savings: Executive Summary", April 2009, at 4.
22. Investment Company Institute, "The U.S. Retirement Market, 2009", at 2.
23. Oliver Wyman (2011), *supra*, at 11.

using a discount rate of 7%. This illustrative calculation clearly indicates the potential for much higher costs from the Proposed Rule than estimated by DOL.

C. Returns on Investors' Retirement Funds Would Likely Decline Due to the Proposed Rule.

25. For several reasons, under the Proposed Rule, investors would likely reduce their usage of IRAs, as well as brokerage services associated with IRAs. First, because, as described above, prices for financial services would likely rise, the Proposed Rule would be likely to cause some individuals to choose not to open IRA accounts or to invest less in them. In addition, under the Proposed Rule, investors would likely face higher minimum account balance requirements to open an IRA. Firms impose minimum account balance requirements because for relatively small accounts, the cost incurred by a firm in opening or servicing the account may be higher than the revenue received. As discussed above, under the Proposed Rule, per-account costs incurred by commission-based brokerage firms would likely increase. Because the revenue generated by low balance accounts is small, an increase in costs would likely mean that these firms would increase minimum account balance requirements for IRA investors.

26. Available evidence is consistent with increases in minimum required account balances under the Proposed Rule. Minimum account sizes generally appear to be substantially higher among fee-based advisers, who incur the expense of fiduciary status and forego most third-party compensation, than among commission-based advisers. Primerica, for instance, allows investors to open IRA accounts with as little as $250, while we understand that minimum account sizes for fee-based advisers are typically more than $10,000, and often $50,000 or more. We have been informed that Primerica believes it would need to raise its minimum IRA account size to around $25,000 if it were forced by the Proposed Rule to forego third-party commissions.

27. Small investors constitute the bulk of IRA investors. We understand that, based on the industry data analyzed by Oliver Wyman they concluded that 51% of IRA accounts include less than $25,000 in assets, and more than 30% of IRA accounts have asset values below the current minimum balance requirement for fee-based advisory services at *any* of the firms providing data for their sample.[24] Unless advisory firms substantially reduced these minimum requirements, investors would need to either move their funds to self-directed brokerage accounts and forego the services they currently receive, or else move their funds out of IRAs altogether. In some cases, investors could add funds to their accounts to reach the new, higher, minimum account balances, although because the IRS limits annual contributions to IRAs, only investors who hold amounts relatively close the new minimum account balance requirements would have this option.[25] Therefore, the Proposed Rule could lead to a reduction in the rate at which individuals invest in IRAs and receive financial services in connection with IRAs.

28. Besides forcing changes for some current IRA investors, increases in minimum account balances would also impact investors seeking to open new IRAs, particularly since new accounts often start with low balances. Because, in the absence of the Proposed Rule, these accounts would be expected to grow over time, the long-run impact in reducing the amount of funds held in IRAs could be even larger than the immediate impact.

29. Consistent with the implications of higher prices and lower investment participation from the Proposed Rule, analysts predict that a similar regulation reducing sales commissions paid to investment advisers in the United Kingdom will raise fees to investors and lead to a dramatic reduction in the size of the financial adviser industry. As reported by analysts at Ernst & Young, under the new

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24. Oliver Wyman (2011), *supra*, at 10 and 17 (showing 22 million total accounts analyzed and 7.2 million accounts with insufficient assets to access the advisory channel at any firm).

25. For 2010, the IRS limits IRA contributions below $5,000 for individuals under age 50, and $6,000 for individuals above age 50. See Internal Revenue Service, *Publication 590: Individual Retirement Accounts (IRAs)*, at 6.

rules, "[f]irst, it seems likely that the mass market and the typical bank customer will not be enthusiastic about paying the sort of fees that make offering the advice attractive. Second, simplified advice becomes a major economic challenge, requiring a radically reduced cost base if it is to present a solution for the mass market … There is a real possibility that the independent advisory sector, as we know it, will shrink significantly."[28]

30. As individuals reduce their holdings of assets in IRAs, they may choose to invest in other, less tax-privileged vehicles, they may choose to invest without the financial services they previously employed, or they may simply choose to invest less overall. Any of these effects would lead to lower investment returns to individual investors, exacerbating the prevailing retirement savings shortages in the U.S.[29]

31. As noted above, IRA investments in the U.S. totaled $4.2 trillion in 2009, constituting 26% of all retirement assets.[30] If, because of the effects described above, the Proposed Rule led even 1% of investment assets to be withdrawn from IRA accounts, and if those assets therefore generated 25 basis points lower annual returns (due, e.g., to disadvantaged tax treatment of non-IRA funds or because of the absence of broker services), then the Proposed Rule would generate losses of nearly $790 million in current dollars over ten years using a 7% discount rate. This would dramatically increase the costs of the Proposed Rule far beyond the level anticipated by the DOL. In addition, investors who withdraw funds from IRAs typically pay tax penalties for early withdrawal, further adding to the costs of the Proposed Rule.

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28. Ernst & Young, "RaDaR: Life and Pensions Outlook for 2011", January 2011, at 7 and 9.
29. According to a 2009 study, the average American family faces a 37% shortfall in the income they will need for retirement. (See McKinsey & Co., "Restoring Americans' Retirement Security: A Shared Responsibility", 2009, at 2.)
30. Investment Company Institute, "The U.S. Retirement Market, 2009", at 2.

III. THE EVIDENCE PRESENTED BY THE DOL SUPPORTING ALLEGED BENEFITS FROM THE PROPOSED RULE DOES NOT PROVIDE A SUFFICIENT BASIS TO CONCLUDE THAT THESE BENEFITS WOULD BE LARGE ENOUGH TO OUTWEIGH THE COSTS.

32. The DOL cost-benefit analysis claims three specific benefits would follow from implementation of the Proposed Rule: (a) discouraging harmful conflicts of interest in which "… service providers strike deals that profit one another at the plan's expense or subordinate the plan's interest to someone else"[31]; (b) providing pension plans with "better value for the service fees they pay", along with "the ancillary benefit of improved returns on plan assets"[32]; and (c) enhancing "the Department's ability to redress service provider abuses that currently exist in the market"[33].

33. We understand that IRAs are outside the scope of the DOL's enforcement authority. Therefore, the potential benefit from the Proposed Rule in enhancing the effectiveness of DOL's enforcement initiatives, while potentially relevant in other segments of the financial services industry, would not by itself provide a basis for supporting an extension of fiduciary status to broker-dealers providing services to IRA investors. For that reason, we will focus our attention on evaluating the evidence presented by the DOL to support the other two claimed benefits.

34. The only quantification of benefits provided in the DOL cost-benefit analysis is the following statement: "If just 10 percent of plans realize a one basis point (0.01 percent of plan assets) service value improvement, it would be worth approximately $399 million over ten years …"[34]. In preparing this Comment, we reviewed the literature cited by the DOL, as well as the broader economic and financial literature related to these issues, and did not find any statistical study which concludes that the Proposed Rule or any similar regulation would generate a one basis point improvement (or any size improvement) in pension plan service value.

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31. DOL cost-benefit analysis, *supra*, at 65272, section 5(a).
32. DOL cost-benefit analysis, *supra*, at 65273, section 5(b).
33. DOL cost-benefit analysis, *supra*, at 65273, section 5(c).
34. DOL cost-benefit analysis, *supra*, at 65273, section 5(b).

A. The Cited Studies Do Not Provide a Basis to Conclude that Benefits from the Proposed Rule Would Be Large Enough to Outweigh the Costs.

35. The DOL argues, qualitatively, that benefits of some size may accrue from the Proposed Rule by citing four statistical studies that the DOL claims support the hypothesis that potential conflicts of interest faced by financial service providers harm investors. Specifically, the DOL cites a study performed by the U.S. Government Accountability Office ("GAO") and three other studies presented in unpublished academic manuscripts. A review of these four studies indicates that none of them focus specifically on IRA investments, nor does any claim to provide direct evidence regarding the Proposed Rule or any similar rule.

36. As we discussed above, the Proposed Rule would likely change the market for IRA investment services significantly. However, each of the studies cited by the DOL analyze investor behavior in the current regulatory environment and under the current industry structure. Therefore, even interpreting the findings of these studies in ways favorable to the DOL's claims, these findings would not be sufficient to conclude that a major change in the regulatory environment, as under the Proposed Rule, would lead to significant benefits because the Proposed Rule could change the structure of the industry in a variety of ways not considered by these studies. In order to understand the full impact of the Proposed Rule, the DOL would need to study carefully how the Proposed Rule would impact investor behavior under the significantly changed industry that the Proposed Rule would impose.

37. In any case, the cited studies do not in fact provide strong evidence that potential conflicts of interest faced by investment advisers lead to significant reductions in investor value, as some of the authors of the studies themselves indicate. Moreover, the results of these studies are consistent with significant benefits received by investors from financial service providers in the current regulatory environment. We first discuss the referenced GAO study and then the three referenced academic studies.

(i) The cited GAO study does not provide a basis to conclude that the benefits from the Proposed Rule would be large enough to outweigh the costs.

38. According to the DOL, the GAO study "links undisclosed conflicts with 130 basis points of underperformance in defined benefit pension plans".[35] Clearly, then, this study's results would not directly apply to IRA investment advisers, since IRAs are not defined benefit plans.[36] Defined benefit plans typically cover aggregate retirement benefits for most or all employees of a large corporation or other institution, while defined contribution plans like IRAs are held by individual investors saving for their own retirement. The advisory needs of defined benefit plan managers are therefore very different from those of IRA investors. Moreover, as recognized in the referenced quote from the DOL, the GAO study would only show, at most, that *disclosure* of potential conflicts of interest could lead to the claimed benefits, not that eliminating the source of these potential conflicts is necessary to achieve such benefits.

39. Moreover, the authors of the GAO study, as well as the individuals who collected the data employed in the GAO study, clearly indicate that their results cannot support a conclusion that conflicts of interest generate investor harms. The first paragraph of the GAO study indicates, "[b]ecause many factors can affect returns, and data as well as modeling limitations limit the ability to generalize and interpret the results, this finding should not be considered proof of causality between conflicts and

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35. DOL cost-benefit analysis, *supra*, at 65272, section 5(a). The GAO study is described in two separate documents, which we will refer to interchangeably as "the GAO study", but separately as "GAO (2009)" and "GAO (2007)": (1) congressional testimony summarizing the study (GAO, "Conflicts of Interest Can Affect Defined Benefit and Defined Contribution Plans", GAO-09-503T, March 24, 2009); and (2) the details of the statistical analysis performed by GAO (GAO, "Conflicts of Interest Involving High Risk or Terminated Plans Pose Enforcement Challenges", GAO-07-703, June 2007).

36. In congressional testimony summarizing the study (GAO 2009), the GAO's Acting Director discussed the possibility that conflicts of interest could also affect defined contribution plans, and cited some evidence that defined contribution plan sponsors and participants may not be fully aware of potential conflicts of interest faced by their pension consultants, but he nevertheless emphasized that the GAO only specifically studied the impact of conflicts of interest on defined benefit plans, noting "[o]ur study focused exclusively on DB [defined benefit] plans and less information exists on the extent of nature of conflicts of interest in the DC [defined contribution] plan environment" (GAO 2009, *supra*, at summary page).

lower rates of return".[37] The GAO also recognizes that, even if harm due to conflicts of interest could be shown with respect to the specific pension plan consultants they studied, such results would not imply harm to retirement investors generally: "… these results cannot be generalized to the population of pension consultants since the consultants examined by the SEC were not selected randomly",[38] and "the plans included in the analysis should not be considered as representative of the population of defined benefit pension plans".[39]

40. As suggested by the quotation above, the sample of pension plan service providers studied by the GAO was collected, and potential conflicts of interest identified, in an earlier analysis by the Securities and Exchange Commission ("SEC") in 2002 and 2003. In their analysis of these providers' behavior, however, the SEC did not conclude that any of them actually *acted* on undisclosed potential conflicts of interest to the detriment of clients, in fact stating that "[w]e could not fully analyze whether pension consultants 'skewed' their recommendations to favor certain money managers"[40]. As noted above, nothing in the SEC's study showed that firms providing financial services to IRA investors had, or acted on, conflicts of interest, because none of the plans analyzed by the SEC were IRAs, or defined contribution plans of any sort.

(ii) Academic studies cited by DOL do not support a conclusion that the alleged benefits from the Proposed Rule would be large enough to outweigh the costs.

41. Turning next to the academic studies cited in the DOL cost-benefit analysis, the results presented in these papers also provide little evidence supporting the DOL's claimed benefits, and in fact are generally consistent with significant benefits accruing to investors from financial services in the current regulatory environment. The first two of the cited studies are similar. Bergstresser, et al. (2007) and Bullard, et al. (2007) both compare returns achieved by "no-load" mutual funds, which are

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37. GAO (2009), *supra*, at summary page.
38. GAO (2007), *supra*, at 16.
39. GAO (2007), *supra*, at 43.
40. SEC (2005) "Staff Report Concerning Examinations of Select Pension Consultants", Office of Compliance Inspections and Examinations, May 16, 2005, at 5.

commonly sold directly to investors, and "load" mutual funds, which are more commonly sold through brokers or other intermediaries.[41] Bergstresser, et al. (2007) argue that load funds underperform, on average, no-load funds. Bullard, et al. (2007) argue that investors in both load and no-load funds tend to mis-time market transactions and so underperform a simple "buy-and-hold" strategy, but that investors in load funds underperform by a greater degree.

42. A key issue in interpreting these results is potential differences between individuals who make use of financial services and those who do not. For instance, investors who make use of these services may make poorer financial decisions than others who do not use these services. Providing support and information to individuals who might otherwise make poor decisions is, after all, the purpose of these services. If investors who make use of these services have poorer financial decision-making skills, a broker or adviser may provide value by supporting better decisions, even if they cannot fully eliminate investors' tendencies to make poor financial decisions. In this case, investors who make use of financial services may still achieve lower returns than those who do not, yet they would earn even lower returns in the absence of the broker or adviser's help.

43. This issue is explicitly recognized by Bullard, et al. (2007), who indicate that their results could be explained by the "well-documented psychological tendency of investors to overweight recent performance. Although investment professionals presumably are more aware of, and less susceptible to, a short-term performance bias, their clients might be more susceptible to this bias than self-directed investors. Those who seek out professional guidance may be less knowledgeable about investing and more inclined to expect or pressure their advisors to trade on short-term performance."[42]

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41. Daniel Bergstresser, John Chalmers, and Peter Tufano (2007) "Assessing the Costs and Benefits of Brokers in the Mutual Fund Industry", Social Science Research Network Abstract 616981, Sept. 2007; Mercer Bullard, Geoff Friesen, and Travis Sapp (2007) "Investor Timing and Fund Distribution Channels", Social Science Research Network Abstract 1070545, Dec. 2007. Begstresser, et al. (2007) has since been published in an academic journal (*The Review of Financial Studies*) in a form similar to the earlier working paper; because the DOL cost-benefit analysis relied on the working paper, we will refer to that version of the manuscript here as well.

42. Bullard, et al. (2007), *supra*, at 11.

44. Bergstresser, et al. (2007) also recognize that their results do not prove that conflicts of interest cause investor losses, and in fact they state that their results could also be evidence of significant benefits to investors from investment brokers, writing "[o]ur results are consistent either with substantial non-tangible benefits delivered by the broker-distributed sector or with conflicts of interest between brokers and their clients."[43]

45. Unlike the two academic studies discussed above, the third study cited in the DOL cost-benefit analysis, Zhao (2005), does not examine investment returns, but focuses instead on which funds investors purchase.[44] Specifically, the author compares the inflow of investor dollars into load funds with different fees, finding that funds with higher fees receive greater inflows of investor dollars on average. In the absence of specific information on how fees for the funds studied by Zhao translate into compensation for brokers or advisers, this result does not provide strong evidence on the specific impact of conflicts of interest.

46. Moreover, this result may be equally consistent with the result predicted by basic economic theory in the absence of conflicts of interest or other market failures. Specifically, Zhao's result that more popular funds, which receive larger inflows, charge higher loads to investors, is not necessarily surprising, since this is an effect that is common to popular products of all types. The fact that more expensive restaurants are often more popular than less expensive restaurants does not necessarily imply that restaurants are exploiting diner ignorance of meal prices; instead, more popular restaurants can simply charge higher prices because the demand for their meals is higher. Zhao's study cannot determine whether investors are purchasing certain funds because opportunistic brokers are pushing investors to buy those funds, or whether investors simply prefer those funds for some other reason.

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43. Bergstresser, et al. (2007), *supra*, at 1.
44. Xinge Zhao (2005) "The Role of Brokers and Financial Advisors Behind Investments into Load Funds", China Europe International Business School Working Paper, Dec. 2005.

47. These three academic studies also uncovered evidence that financial services firms provide significant benefits to investors. Bergstresser, et al. (2007) found supporting evidence for the hypothesis that "brokers specialize in unique products, especially ones that individual investors would have difficulty in evaluating on their own",[45] and they further acknowledge that "[b]rokers may help their clients save more than they would otherwise save, they may help clients more efficiently use scarce time, they may help customize portfolios to investors' risk tolerances, and they may increase overall investor comfort with their investment decisions"[46]. Zhao (2005) similarly found evidence consistent with the notion that investment advisers provide valuable services to their clients, stating "… while no load fund investors flock into larger funds with more visibility, load fund investors are more likely to be directed by brokers and financial advisers into smaller funds, which might experience better performance than larger funds exceeding their optimal size."[47] These studies do not attempt to quantify the value of these benefits, which may be large.

48. Moreover, these studies do not attempt to calculate other value provided by brokerage services unrelated to the returns achieved by plan assets, such as the provision of information regarding the appropriate amount of current investment needed to meet retirement goals or the tax consequences of taking a distribution from an IRA after a rollover event.

IV. A REVIEW OF ECONOMIC THEORY AND AVAILABLE EVIDENCE REGARDING THE IRA INVESTMENT SERVICES INDUSTRY DOES NOT SUPPORT A CONCLUSION THAT THE PROPOSED RULE WOULD GENERATE BENEFITS LARGE ENOUGH TO OUTWEIGH THE COSTS.

49. It may be true that certain brokers providing services to investors face *potential* conflicts of interest; nevertheless, there are two key economic factors that economic theory and available evidence indicate constrain firms from *acting* on these conflicts to the detriment of customers:

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45. Bergstresser, et al. (2007), *supra*, at 13.
46. Bergstresser, et al. (2007), *supra*, at 2-3.
47. Zhao (2005), *supra*, at 32.

competition and reputational concerns. In addition, we understand that broker-dealers currently face a range of regulations that further diminish the impact of potential conflicts of interest. Because these constraints already exist in the current market environment, we see no basis to conclude that implementation of the Proposed Rule would produce significant additional benefits beyond what investors currently receive. Therefore whatever benefits may result from the Proposed Rule would be unlikely to be large enough to outweigh the costs we identified above.

50. The revealed preference of investors themselves for commission-based investment services with respect to IRAs provides perhaps the most powerful evidence that, even in the presence of potential incentives for broker-dealers to behave opportunistically with respect to their clients, market discipline protects investors. We understand that, based on the industry data analyzed by Oliver Wyman, they concluded that 88% of all IRA accounts are held with commission-based brokerage firms.[48] According to the Investment Company Institute, "80 percent of [households] that owned funds outside a workplace retirement plan held funds purchased through a professional adviser."[49] Moreover, "[h]alf of all mutual fund shareholders indicated they had ongoing relationships with financial advisers",[50] illustrating the continuing value investors perceive in their relationships with financial service providers.

51. Basic economic principles indicate that competition among firms places a constraint on the ability of these firms to behave in ways detrimental to their clients because, to the extent they do so, their clients will experience low benefits from the services provided and create opportunities for competing firms, which can earn sales by pointing out the low benefits a customer is currently receiving and offering to provide higher benefits. In addition, competition in the market for expert advice creates opportunities for investors to readily seek "second opinions", which provide an additional check on advisers' ability to exploit informational advantages they may have with respect to their customers.

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48. Oliver Wyman (2011),*supra*, at 11.
49. Investment Company Institute, *2010 Investment Company Fact Book*, at 85.
50. Investment Company Institute, *2010 Investment Company Fact Book*, at 86.

52. In fact, the market for IRA investment services appears to be highly competitive, as a wide range of evidence indicates.

- Recent industry reports indicate that there are around 25,000 companies in the U.S. competing to provide financial planning and investment advice to individuals and businesses.[51]
- Public financial filings by companies in the industry consistently indicate a high degree of competition: "We operate in a highly competitive environment with respect to the sale of financial products" (Primerica)[52]; "We operate in a highly competitive industry" (Ameriprise Financial)[53]; "We are subject to competition in all aspects of our business" (LPL)[54]; "All aspects of the Partnership's business are highly competitive" (Edward Jones)[55].
- Average fees for mutual funds, one of the major products purchased through commission-based brokers, have declined consistently and dramatically over time. As noted by the Investment Company Institute in 2010, "[f]ees and expenses incurred by stock and bond mutual fund investors have declined by half since 1990".[56] Declining prices are typical of competitive industries, and accordingly, this industry publication attributes the noted decline in fees at least partially to competition.[57]
- Investors are increasingly moving towards lower-cost mutual funds and other investments, providing incentives for brokers to keep the fees they charge low in order to remain competitive. One way to see investors' competitive pressure with respect to costs is to compare the average expense ratio on all mutual funds offered in the marketplace with the average

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51. First Research "Industry Profile: Financial Planners and Investment Advisors", Oct. 26, 2009.
52. Primerica Inc. 10-K for the fiscal year ended December 31, 2010, at 35.
53. Ameriprise Financial, Inc. 10-K for the fiscal year ended December 31, 2010, at 17.
54. LPL Investment Holdings Inc. 10-K for the fiscal year ended December 31, 2010, at 19.
55. The Jones Financial Companies LLLP 10-K for the fiscal year ended December 31, 2010, at 18.
56. Investment Company Institute, *2010 Investment Company Fact Book*, at 64. These findings are broadly consistent with trends in expense ratios studied previously by the GAO ("Information on Trends in Fees and Their Related Disclosure", GAO-03-551T, Testimony Before the Subcommittee on Capital Markets, Insurance and Government Sponsored Enterprises, Committee on Financial Services, House of Representatives, March 12, 2003, at summary page).
57. Investment Company Institute, *2010 Investment Company Fact Book*, at 66.

expense ratio actually paid by investors. To the extent that shareholders invest more in lower-cost funds, they will pay lower expenses than charged by the average fund. In 1995, the average fund charged an expense ratio of 1.52%, while investors actually paid an average expense ratio of 1.04%, a difference of 48 basis points.[58] By 2009, the average fund charged an expense ratio of 1.50%, while investors paid an average of 0.86%, a difference of 64 basis points.

53. Several academic studies of markets for expert advice support the hypothesis that competition is effective in constraining conflicts of interest specifically in the market for expert advisers:

- Bolton, et al. (2005) developed a model of the provision of information by sellers of financial services to customers, as takes place in the IRA investment broker industry. They conclude that "competition both reduces the gains from lying and induces financial institutions to disclose information".[59] They further write that their results "… directly challenge the conventional wisdom that information is only credible if it is provided by an independent institution that has no such conflicts of interest."[60]
- Krausz and Paroush (2002) analyze conflicts of interest in financial advising, and argue that "… competition reduces transactions cost and it is easier for dissatisfied investors to transfer from one financial advisor to another. Furthermore, if deception is very severe, competition from other financial advisors and institutions will erode the financial advisor's returns, yet again reducing the incentive to deceive."[61]

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58. Investment Company Institute, *2010 Investment Company Fact Book*, at 66.
59. Patrick Bolton, Xavier Freixas, and Joel Shapiro (2007) "Conflicts of Interest, Information Provision, and Competition in the Financial Services Industry", *Journal of Financial Economics* 85(2), at 298.
60. Bolton, et al. (2007), *supra*, at 298.
61. Miriam Krausz and Jacob Paroush, "Financial Advising in the Presence of Conflict of Interests", 54 *Journal of Economics and Business*, at 57.

- Patron and Roskelley (2007) analyze the analogous case of conflicts of interest in markets for expert real estate advice, and conclude that "agents are less likely to suggest aggressive bargaining strategies [for their clients] when there is little market competition."[62]

As on most topics, there are a wide variety of different opinions expressed by academic authors depending on the assumptions they make and the methodologies they employ; however, at the very least these articles indicate that, without further detailed study of the IRA investment brokerage industry, it is highly premature to conclude that the Proposed Rule will result in significant benefits to investors or others large enough to outweigh its costs.

54. A second key factor that constrains investment brokers from acting on potential conflicts of interest to the detriment of their clients is the need to maintain a positive reputation among clients and potential clients. Economic principles indicate that if a firm develops a reputation for low-quality service, its clients will be less likely to use that firm's services in the future, and will be less willing to recommend the firm's services to others. In the context of financial services firms, this provides an incentive for those firms to provide high-quality service to their clients, even in the presence of potential conflicts of interest.

55. Reputation as a factor limiting opportunistic behavior by firms has been repeatedly identified as important in the academic literature. In an extensive survey, MacLeod (2007) summarizes the substantial literature on this issue, which he describes as based on the premise that, "in a free market, sellers of high quality goods treat their reputation as an asset that loses its value should they choose to supply goods of low quality",[63] and that "reputation is an asset whose value is destroyed

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62. Hilde E. Patron and Kenneth D. Roskelley, "The Effect of Reputation and Competition on the Advice of Real Estate Agents", 37 *Journal of Real Estate Financial Economics*, at 387.

63. W. Bentley MacLeod (2007) "Reputations, Relationships, and Contract Enforcement", *Journal of Economic Literature* XLV:595-628, at 596.

when a seller or buyer breaches their obligation."[64] Other standard and well-cited economic articles based on this concept are Klein and Leffler (1981)[65] and Rogerson (1983)[66].

56. Available evidence also indicates that reputation is an important factor specifically in the market for IRA investment services.

- Public financial filings by companies in the industry indicate that reputation is a key element in their business success: "Our reputation is one of our most important assets … Damage to our reputation could cause significant harm to our business and prospects … Our reputation is also dependent on our continued identification of and mitigation against conflicts of interest … our reputation could be damaged if we fail, or appear to fail, to deal appropriately with conflicts of interest" (Ameriprise Financial)[67]; "We have spent many years developing our reputation for integrity and superior client service … Damage to our reputation could cause significant harm to our business and prospects" (LPL)[68].
- Firms in the IRA investment services industry rely to a significant degree on referrals from clients to attract new business.[69] Referrals are only an effective source of sales leads when a firm holds a good reputation with its client base.

57. In summary, economic theory and available evidence indicate that factors in the current market environment likely serve to substantially constrain the ability of IRA investment brokers to act on

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64. MacLeod (2007), *supra*, at 603.
65. Benjamin Klein and Keith B. Leffler (1981) "The Role of Market Forces in Assuring Contractual Performance", *Journal of Political Economy* 89(4):615-41.
66. William P. Rogerson (1983) "Reputation and Product Quality", *Bell Journal of Economics* 14(2):508-16.
67. Ameriprise Financial, Inc. 10-K for the fiscal year ended December 31, 2010, at 47.
68. LPL Investment Holdings Inc. 10-K for the fiscal year ended December 31, 2010, at 29.
69. First Research, "Industry Profile: Financial Planners and Investment Advisors", Oct. 26, 2009 (stating, "[i]nvestment advisers depend heavily on referrals for new customers"); see also Dow Jones News Service, "Wealth Adviser: Facing the Competition – Whatever it May Be", June 8, 2010 (stating, "[i]n the end, many advisers find the most productive approach is to focus on doing the best they can for the clients they have and counting on that to bring in referrals").

potential conflicts of interest. Therefore, we see no basis to conclude that the Proposed Rule would generate benefits large enough to outweigh the costs.

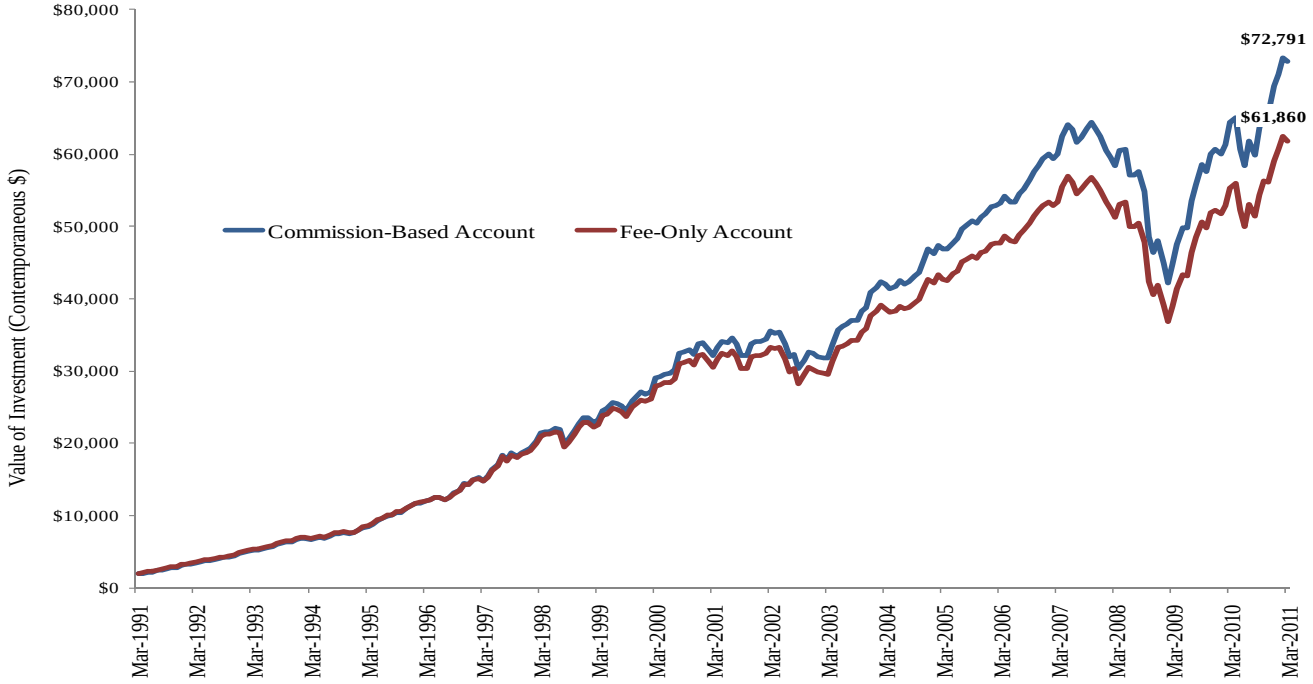
Daniel R. Fischel

Todd D. Kendall

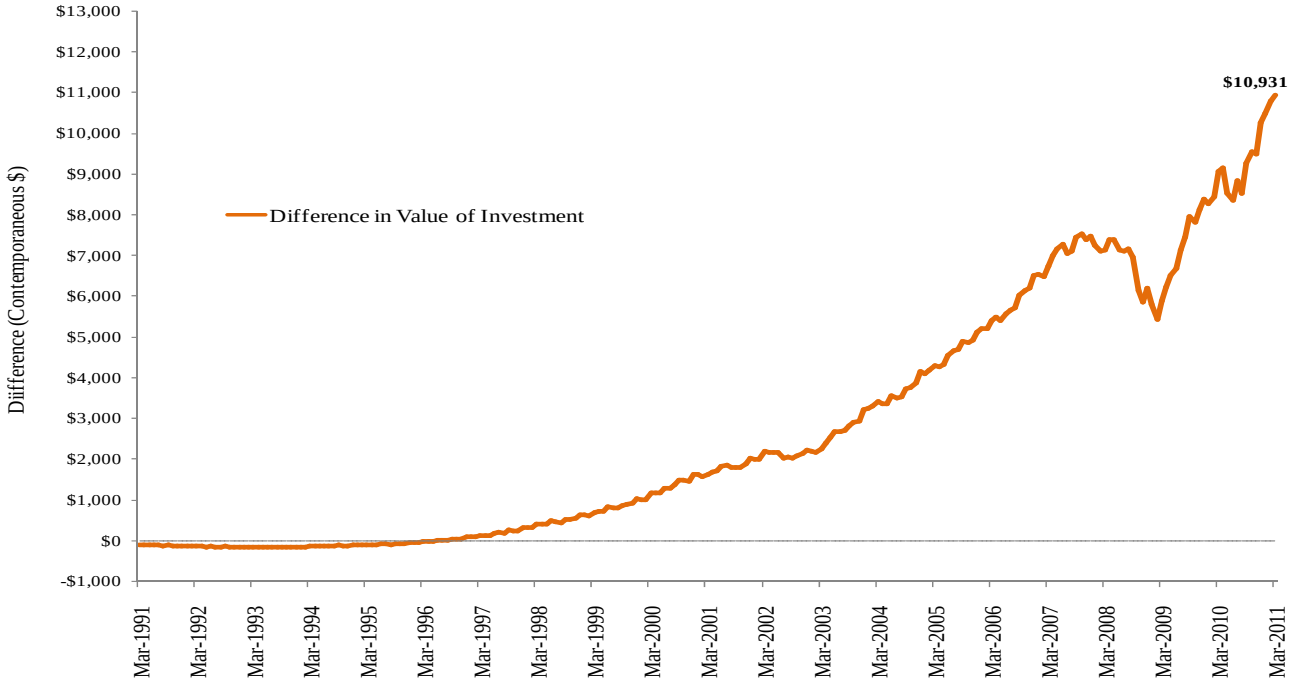
ATTACHMENT 1

Value of IRA Mutual Fund Investment Under Commission-Based and Fee-Only Expense Schedule ($2,000 Initial Investment and $100 Monthly Contributions)

March 31, 1991 through March 31, 2011



Difference in Value of Investment



Source: Morningstar analyses of Invesco Van Kampen Equity and Income Fund, Class A shares.

Notes: Commission-based expense schedule includes 5.5% front load on initial investment and contributions until asset value reaches $50,000, when front load on additional contributions declines.
Fee-only expense schedule includes 1.5% annual fee charged on assets under management.
Investment value assumes all dividends and capital gains are reinvested in the specified fund.
Value calculations do not incorporate taxes.

PFS INVESTMENTS INC.

Member of FINRA

Hypo Report

April 10, 2011

Prepared Especially For:

Your Representative:

Hypothetical Portfolio Illustration

03-31-1991 to 03-31-2011

Portfolio Summary

Planning Assumptions

Currency	USD
Rebalance	None
Federal Income Tax Rate	0%
Capital Gain Tax Rate	0%
State Tax Rate	0%
Tax Paid	Out of Pocket

Performance

Net Amount Invested	$26,000
Final Market Value	$72,791
Average Annualized Return	8.75%
Cumulative Return	435.73%

Investment Detail

Period		Beginning Balance	New Investment	Distribution/ Withdrawal	Total Reinvest	Charges & Fees	Taxes Due	Market Value	Total Return %
Totals		0	26,000	0	34,210	1,371	0	72,791	8.75
March	1991	0	2,000	0	0	110	0	1,890	-5.50
April	1991	1,890	100	0	0	6	0	1,989	-0.06
May	1991	1,989	100	0	0	6	0	2,147	2.93
June	1991	2,147	100	0	24	6	0	2,174	-3.38
July	1991	2,174	100	0	0	6	0	2,360	3.91
August	1991	2,360	100	0	0	6	0	2,517	2.43
September	1991	2,517	100	0	27	6	0	2,612	-0.21
October	1991	2,612	100	0	0	6	0	2,752	1.54
November	1991	2,752	100	0	0	6	0	2,781	-2.57
December	1991	2,781	100	0	40	6	0	3,096	7.71
January	1992	3,096	100	0	0	6	0	3,171	-0.80
February	1992	3,171	100	0	0	6	0	3,318	1.49
March	1992	3,318	100	0	34	6	0	3,358	-1.81
April	1992	3,358	100	0	0	6	0	3,516	1.73
May	1992	3,516	100	0	0	6	0	3,662	1.29
June	1992	3,662	100	0	37	6	0	3,719	-1.17
July	1992	3,719	100	0	0	6	0	3,937	3.18
August	1992	3,937	100	0	0	6	0	4,000	-0.94
September	1992	4,000	100	0	41	6	0	4,143	1.08
October	1992	4,143	100	0	0	6	0	4,254	0.27
November	1992	4,254	100	0	0	6	0	4,460	2.49
December	1992	4,460	100	0	39	6	0	4,639	1.76
January	1993	4,639	100	0	0	6	0	4,841	2.22
February	1993	4,841	100	0	0	6	0	5,009	1.41

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Hypothetical Portfolio Illustration

03-31-1991 to 03-31-2011

Investment Detail

Period		Beginning Balance	New Investment	Distribution/ Withdrawal	Total Reinvest	Charges & Fees	Taxes Due	Market Value	Total Return %
Totals		0	26,000	0	34,210	1,371	0	72,791	8.75
March	1993	5,009	100	0	70	6	0	5,231	2.42
April	1993	5,231	100	0	0	6	0	5,238	-1.77
May	1993	5,238	100	0	0	6	0	5,402	1.21
June	1993	5,402	100	0	42	6	0	5,579	1.44
July	1993	5,579	100	0	0	6	0	5,725	0.82
August	1993	5,725	100	0	0	6	0	6,008	3.19
September	1993	6,008	100	0	45	6	0	6,158	0.83
October	1993	6,158	100	0	0	6	0	6,329	1.15
November	1993	6,329	100	0	0	6	0	6,324	-1.66
December	1993	6,324	100	0	266	6	0	6,588	2.60
January	1994	6,588	100	0	0	6	0	6,885	2.98
February	1994	6,885	100	0	0	6	0	6,799	-2.70
March	1994	6,799	100	0	97	6	0	6,632	-3.92
April	1994	6,632	100	0	0	6	0	6,790	0.86
May	1994	6,790	100	0	0	6	0	6,922	0.48
June	1994	6,922	100	0	54	6	0	6,889	-1.93
July	1994	6,889	100	0	0	6	0	7,168	2.60
August	1994	7,168	100	0	0	6	0	7,476	2.91
September	1994	7,476	100	0	57	6	0	7,437	-1.86
October	1994	7,437	100	0	0	6	0	7,587	0.67
November	1994	7,587	100	0	0	6	0	7,430	-3.39
December	1994	7,430	100	0	169	6	0	7,581	0.69
January	1995	7,581	100	0	0	6	0	7,896	2.83
February	1995	7,896	100	0	0	6	0	8,243	3.13
March	1995	8,243	100	0	67	6	0	8,511	2.03
April	1995	8,511	100	0	0	6	0	8,805	2.28
May	1995	8,805	100	0	0	6	0	9,225	3.63
June	1995	9,225	100	0	66	6	0	9,495	1.85
July	1995	9,495	100	0	0	6	0	9,892	3.13
August	1995	9,892	100	0	0	6	0	10,035	0.43
September	1995	10,035	100	0	68	6	0	10,409	2.73
October	1995	10,409	100	0	0	6	0	10,421	-0.85
November	1995	10,421	100	0	0	6	0	10,982	4.42
December	1995	10,982	100	0	637	6	0	11,335	2.31
January	1996	11,335	100	0	0	6	0	11,645	1.85
February	1996	11,645	100	0	0	6	0	11,758	0.11
March	1996	11,758	100	0	181	6	0	12,017	1.35
April	1996	12,017	100	0	0	6	0	12,111	-0.05
May	1996	12,111	100	0	0	6	0	12,413	1.67
June	1996	12,413	100	0	66	6	0	12,517	0.03
July	1996	12,517	100	0	0	6	0	12,131	-3.88
August	1996	12,131	100	0	0	6	0	12,555	2.67
September	1996	12,555	100	0	68	6	0	13,089	3.45
October	1996	13,089	100	0	0	6	0	13,460	2.07

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Hypothetical Portfolio Illustration

03-31-1991 to 03-31-2011

Investment Detail

Period		Beginning Balance	New Investment	Distribution/ Withdrawal	Total Reinvest	Charges & Fees	Taxes Due	Market Value	Total Return %
Totals		0	26,000	0	34,210	1,371	0	72,791	8.75
November	1996	13,460	100	0	0	6	0	14,391	6.17
December	1996	14,391	100	0	712	6	0	14,332	-1.10
January	1997	14,332	100	0	0	6	0	14,937	3.52
February	1997	14,937	100	0	0	6	0	15,181	0.97
March	1997	15,181	100	0	322	6	0	14,832	-2.96
April	1997	14,832	100	0	0	6	0	15,413	3.25
May	1997	15,413	100	0	0	6	0	16,399	5.74
June	1997	16,399	100	0	78	6	0	17,042	3.31
July	1997	17,042	100	0	0	6	0	18,359	7.14
August	1997	18,359	100	0	0	6	0	17,680	-4.24
September	1997	17,680	100	0	80	6	0	18,586	4.56
October	1997	18,586	100	0	0	6	0	18,219	-2.51
November	1997	18,219	100	0	0	6	0	18,662	1.88
December	1997	18,662	100	0	2,018	6	0	19,030	1.44
January	1998	19,030	100	0	0	6	0	19,230	0.52
February	1998	19,230	100	0	0	6	0	20,328	5.19
March	1998	20,328	100	0	296	6	0	21,385	4.71
April	1998	21,385	100	0	0	6	0	21,614	0.61
May	1998	21,614	100	0	0	6	0	21,654	-0.28
June	1998	21,654	100	0	95	6	0	22,092	1.56
July	1998	22,092	100	0	0	6	0	21,911	-1.27
August	1998	21,911	100	0	0	6	0	19,933	-9.48
September	1998	19,933	100	0	97	6	0	20,625	2.97
October	1998	20,625	100	0	0	6	0	21,728	4.86
November	1998	21,728	100	0	0	6	0	22,752	4.25
December	1998	22,752	100	0	1,256	6	0	23,482	2.77
January	1999	23,482	100	0	0	6	0	23,546	-0.15
February	1999	23,546	100	0	0	6	0	22,887	-3.22
March	1999	22,887	100	0	353	6	0	23,208	0.96
April	1999	23,208	100	0	0	6	0	24,537	5.30
May	1999	24,537	100	0	0	6	0	24,755	0.48
June	1999	24,755	100	0	109	6	0	25,612	3.06
July	1999	25,612	100	0	0	6	0	25,424	-1.12
August	1999	25,424	100	0	0	6	0	25,141	-1.51
September	1999	25,141	100	0	111	6	0	24,554	-2.73
October	1999	24,554	100	0	0	6	0	25,858	4.91
November	1999	25,858	100	0	0	6	0	26,368	1.59
December	1999	26,368	100	0	2,376	6	0	27,026	2.12
January	2000	27,026	100	0	0	6	0	26,767	-1.33
February	2000	26,767	100	0	0	6	0	27,039	0.64
March	2000	27,039	100	0	863	6	0	29,074	7.16
April	2000	29,074	100	0	0	6	0	29,168	-0.02
May	2000	29,168	100	0	0	6	0	29,559	1.00
June	2000	29,559	100	0	167	6	0	29,669	0.03

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Hypothetical Portfolio Illustration

03-31-1991 to 03-31-2011

Investment Detail

Period		Beginning Balance	New Investment	Distribution/ Withdrawal	Total Reinvest	Charges & Fees	Taxes Due	Market Value	Total Return %
Totals		0	26,000	0	34,210	1,371	0	72,791	8.75
July	2000	29,669	100	0	0	6	0	30,100	1.12
August	2000	30,100	100	0	0	6	0	32,371	7.21
September	2000	32,371	100	0	169	6	0	32,676	0.63
October	2000	32,676	100	0	0	6	0	32,960	0.56
November	2000	32,960	100	0	0	6	0	32,332	-2.21
December	2000	32,332	100	0	2,766	6	0	33,725	4.00
January	2001	33,725	100	0	0	6	0	33,861	0.11
February	2001	33,861	100	0	0	6	0	32,866	-3.23
March	2001	32,866	100	0	884	6	0	32,059	-2.76
April	2001	32,059	100	0	0	6	0	33,325	3.64
May	2001	33,325	100	0	0	6	0	34,115	2.07
June	2001	34,115	100	0	240	6	0	33,927	-0.85
July	2001	33,927	100	0	0	6	0	34,594	1.67
August	2001	34,594	100	0	0	6	0	33,716	-2.83
September	2001	33,716	100	0	244	6	0	32,110	-5.06
October	2001	32,110	100	0	0	6	0	32,115	-0.30
November	2001	32,115	100	0	0	6	0	33,782	4.88
December	2001	33,782	100	0	415	6	0	34,116	0.69
January	2002	34,116	100	0	0	6	0	34,119	-0.28
February	2002	34,119	100	0	0	6	0	34,443	0.66
March	2002	34,443	100	0	499	6	0	35,496	2.77
April	2002	35,496	100	0	0	6	0	35,263	-0.94
May	2002	35,263	100	0	0	6	0	35,404	0.12
June	2002	35,404	100	0	197	6	0	33,811	-4.78
July	2002	33,811	100	0	0	6	0	31,914	-5.91
August	2002	31,914	100	0	0	6	0	32,341	1.03
September	2002	32,341	100	0	200	6	0	30,291	-6.65
October	2002	30,291	100	0	0	6	0	31,541	3.80
November	2002	31,541	100	0	0	6	0	32,650	3.20
December	2002	32,650	100	0	203	6	0	32,365	-1.18
January	2003	32,365	100	0	0	6	0	31,971	-1.53
February	2003	31,971	100	0	0	6	0	31,771	-0.94
March	2003	31,771	100	0	207	6	0	31,774	-0.30
April	2003	31,774	100	0	0	6	0	33,656	5.61
May	2003	33,656	100	0	0	6	0	35,742	5.90
June	2003	35,742	100	0	210	6	0	36,142	0.84
July	2003	36,142	100	0	0	6	0	36,438	0.54
August	2003	36,438	100	0	0	6	0	36,936	1.09
September	2003	36,936	100	0	213	6	0	37,038	0.01
October	2003	37,038	100	0	0	6	0	38,306	3.15
November	2003	38,306	100	0	0	6	0	38,810	1.05
December	2003	38,810	100	0	215	6	0	40,820	4.92
January	2004	40,820	100	0	0	6	0	41,483	1.38
February	2004	41,483	100	0	0	6	0	42,406	1.98

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Hypothetical Portfolio Illustration

03-31-1991 to 03-31-2011

Investment Detail

Period		Beginning Balance	New Investment	Distribution/ Withdrawal	Total Reinvest	Charges & Fees	Taxes Due	Market Value	Total Return %
Totals		0	26,000	0	34,210	1,371	0	72,791	8.75
March	2004	42,406	100	0	218	6	0	41,940	-1.34
April	2004	41,940	100	0	0	6	0	41,407	-1.51
May	2004	41,407	100	0	0	6	0	41,658	0.37
June	2004	41,658	100	0	221	6	0	42,501	1.78
July	2004	42,501	100	0	0	6	0	42,066	-1.26
August	2004	42,066	100	0	0	6	0	42,320	0.37
September	2004	42,320	100	0	223	6	0	43,117	1.65
October	2004	43,117	100	0	0	6	0	43,694	1.11
November	2004	43,694	100	0	0	6	0	45,184	3.18
December	2004	45,184	100	0	378	6	0	46,851	3.47
January	2005	46,851	100	0	0	6	0	46,184	-1.64
February	2005	46,184	100	0	0	6	0	47,422	2.46
March	2005	47,422	100	0	854	6	0	46,949	-1.21
April	2005	46,949	100	0	0	6	0	46,821	-0.49
May	2005	46,821	100	0	0	6	0	47,752	1.78
June	2005	47,752	100	0	254	6	0	48,325	0.99
July	2005	48,325	100	0	0	6	0	49,715	2.67
August	2005	49,715	100	0	0	5	0	50,149	0.67
September	2005	50,149	100	0	257	5	0	50,842	1.18
October	2005	50,842	100	0	0	5	0	50,425	-1.02
November	2005	50,425	100	0	0	5	0	51,262	1.46
December	2005	51,262	100	0	2,020	5	0	51,703	0.67
January	2006	51,703	100	0	0	5	0	52,752	1.83
February	2006	52,752	100	0	0	5	0	52,847	-0.01
March	2006	52,847	100	0	1,115	5	0	53,157	0.40
April	2006	53,157	100	0	0	5	0	54,109	1.60
May	2006	54,109	100	0	0	5	0	53,408	-1.48
June	2006	53,408	100	0	304	5	0	53,447	-0.11
July	2006	53,447	100	0	0	5	0	54,470	1.73
August	2006	54,470	100	0	0	5	0	55,185	1.13
September	2006	55,185	100	0	317	5	0	56,408	2.03
October	2006	56,408	100	0	0	5	0	57,567	1.88
November	2006	57,567	100	0	0	5	0	58,351	1.19
December	2006	58,351	100	0	2,077	5	0	59,408	1.64
January	2007	59,408	100	0	0	5	0	59,960	0.76
February	2007	59,960	100	0	0	5	0	59,403	-1.10
March	2007	59,403	100	0	593	5	0	60,037	0.90
April	2007	60,037	100	0	0	5	0	62,447	3.85
May	2007	62,447	100	0	0	5	0	64,132	2.54
June	2007	64,132	100	0	365	5	0	63,398	-1.30
July	2007	63,398	100	0	0	5	0	61,623	-2.96
August	2007	61,623	100	0	0	5	0	62,254	0.86
September	2007	62,254	100	0	369	5	0	63,529	1.89
October	2007	63,529	100	0	0	5	0	64,367	1.16

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Hypothetical Portfolio Illustration

03-31-1991 to 03-31-2011

Investment Detail

Period		Beginning Balance	New Investment	Distribution/ Withdrawal	Total Reinvest	Charges & Fees	Taxes Due	Market Value	Total Return %
Totals		0	26,000	0	34,210	1,371	0	72,791	8.75
November	2007	64,367	100	0	0	5	0	63,381	-1.69
December	2007	63,381	100	0	2,558	5	0	62,488	-1.57
January	2008	62,488	100	0	0	5	0	60,533	-3.29
February	2008	60,533	100	0	0	5	0	59,496	-1.88
March	2008	59,496	100	0	463	5	0	58,354	-2.09
April	2008	58,354	100	0	0	5	0	60,454	3.43
May	2008	60,454	100	0	0	5	0	60,693	0.23
June	2008	60,693	100	0	392	5	0	57,149	-6.00
July	2008	57,149	100	0	0	5	0	57,027	-0.39
August	2008	57,027	100	0	0	5	0	57,630	0.88
September	2008	57,630	100	0	397	5	0	54,765	-5.15
October	2008	54,765	100	0	0	6	0	48,481	-11.66
November	2008	48,481	100	0	0	6	0	46,372	-4.56
December	2008	46,372	100	0	402	6	0	47,983	3.26
January	2009	47,983	100	0	0	6	0	44,953	-6.52
February	2009	44,953	100	0	0	6	0	42,215	-6.31
March	2009	42,215	100	0	315	6	0	44,738	5.74
April	2009	44,738	100	0	0	6	0	47,548	6.06
May	2009	47,548	100	0	0	6	0	49,835	4.60
June	2009	49,835	100	0	319	6	0	49,865	-0.14
July	2009	49,865	100	0	0	5	0	53,550	7.19
August	2009	53,550	100	0	0	5	0	55,864	4.13
September	2009	55,864	100	0	246	5	0	58,587	4.70
October	2009	58,587	100	0	0	5	0	57,526	-1.98
November	2009	57,526	100	0	0	5	0	60,093	4.29
December	2009	60,093	100	0	248	5	0	60,594	0.67
January	2010	60,594	100	0	0	5	0	59,989	-1.16
February	2010	59,989	100	0	0	5	0	61,331	2.07
March	2010	61,331	100	0	312	5	0	64,397	4.84
April	2010	64,397	100	0	0	5	0	65,043	0.85
May	2010	65,043	100	0	0	5	0	60,734	-6.78
June	2010	60,734	100	0	276	5	0	58,344	-4.10
July	2010	58,344	100	0	0	5	0	61,848	5.83
August	2010	61,848	100	0	0	5	0	59,880	-3.34
September	2010	59,880	100	0	280	5	0	63,598	6.04
October	2010	63,598	100	0	0	5	0	65,774	3.26
November	2010	65,774	100	0	0	5	0	65,549	-0.49
December	2010	65,549	100	0	335	5	0	69,358	5.66
January	2011	69,358	100	0	0	5	0	71,068	2.32
February	2011	71,068	100	0	0	5	0	73,266	2.95
March	2011	73,266	100	0	312	5	0	72,791	-0.78

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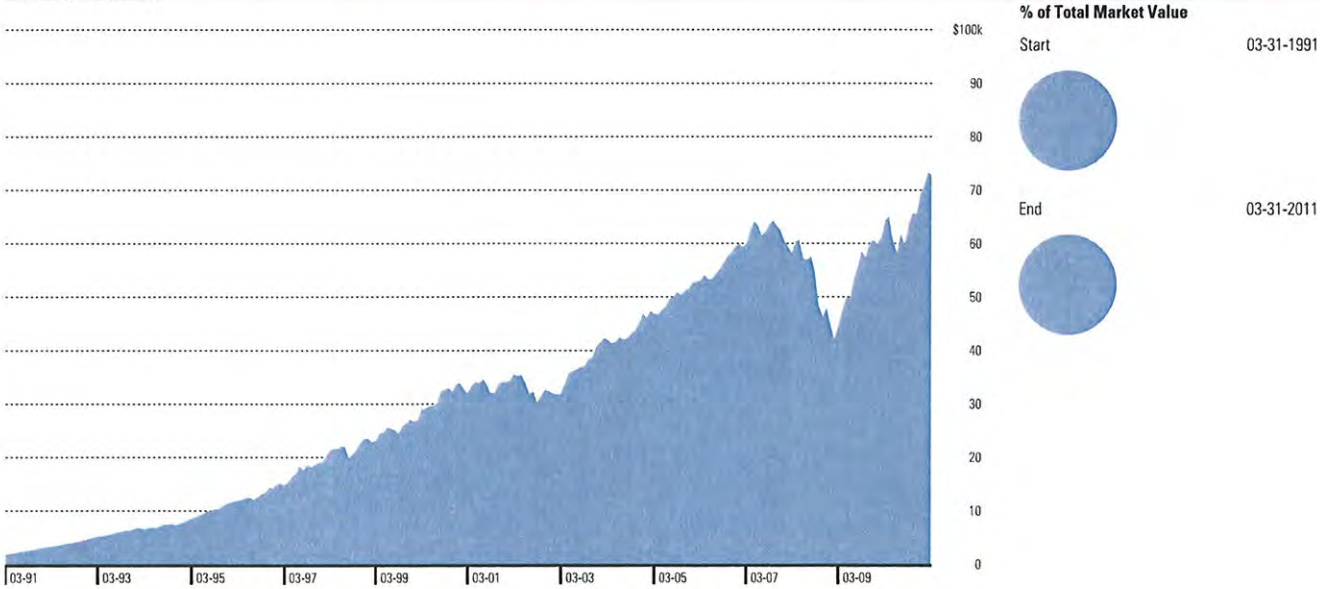
Hypothetical Portfolio Illustration Continued

03-31-1991 to 03-31-2011

Security Summary



Investment Assumptions

Investment Name	Holding Period Start	Holding Period End	Initial Investment Amount	Subsequent Invest/Withdwl Amount	Subsequent Invest/Withdwl Freq	Reinvest Distributions Income	Reinvest Distributions Cap Gains	Liqui-date	Re-balance %	Charges and Fees Front Load	Charges and Fees Annual Fee%	Charges and Fees Deferred Load Amount%	Charges and Fees Period Years	Market Value End $
Invesco Van Kampen Equity and Income A (USD)	03-91	03-11	2,000	100	Mon	Y	Y	N	—	5.50%	0.00	0.00-0.00	—	72,791

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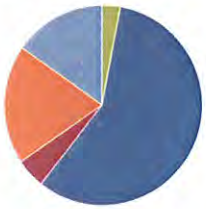
Portfolio Snapshot

Portfolio Value
$72,791

Benchmark
S&P 500 TR (USD)

Analysis 03-31-2011



Asset Allocation	Portfolio Net %	Bmark Net %
Cash	2.94	0.00
US Stocks	57.78	99.90
Non-US Stocks	4.79	0.10
Bonds	19.24	0.00
Other/Not Clsfd	**15.25**	**0.00**

Morningstar Equity Style Box %

	Value	Core	Growth
Large	41	36	17
Mid	3	2	1
Small	0	0	0

Total Stock Holdings 78

0-10 10-25 25-50 >50

Morningstar Fixed Income Style Box %

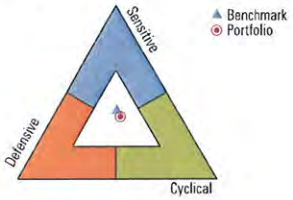
	Ltd	Mod	Ext
High	0	0	0
Med	0	100	0
Low	0	0	0

Total Bond Holdings 199

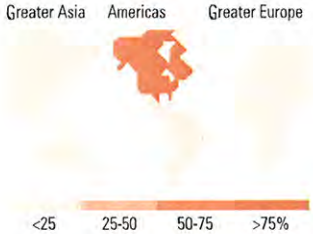
0-10 10-25 25-50 >50

Stock Analysis 03-31-2011

Stock Sectors



World Regions



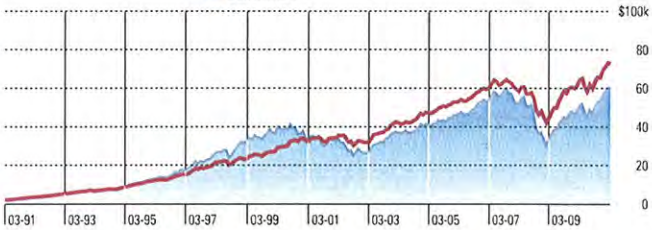
% of Stocks	Portfolio %	Bmark %
Cyclical	**36.43**	**28.50**
Basic Matls	3.28	2.96
Consumer Cycl	11.21	9.25
Financial Svs	21.94	14.67
Real Estate	0.00	1.62
Sensitive	**39.10**	**46.85**
Commun Svs	6.10	4.25
Energy	14.79	13.01
Industrials	9.87	12.93
Technology	8.34	16.66
Defensive	**24.47**	**24.65**
Consumer Def	10.71	10.73
Healthcare	9.71	10.79
Utilities	4.05	3.13
Not Classified	**0.00**	**0.00**

% of Stocks	Portfolio %	Bmark %
Greater Europe	**6.44**	**0.10**
United Kingdom	3.79	0.00
Europe-Developed	2.65	0.10
Europe-Emerging	0.00	0.00
Africa/Middle East	0.00	0.00
Americas	**92.35**	**99.91**
North America	92.35	99.91
Latin America	0.00	0.00
Greater Asia	**1.21**	**0.00**
Japan	1.21	0.00
Australasia	0.00	0.00
Asia-Developed	0.00	0.00
Asia-Emerging	0.00	0.00
Not Classified	**0.00**	**0.00**

Performance 03-31-2011

Investment Activity Graph — Portfolio — Benchmark

Final Mkt Val: $72,791



Trailing Returns	3 Mo	1 Yr	3 Yr	5 Yr	10 Yr
Portfolio Return	4.51	11.08	5.69	4.45	5.86
Benchmark Return	5.92	15.81	2.88	2.87	3.58
+/- Benchmark Return	-1.41	-4.73	2.81	1.58	2.28

Best/Worst Time Periods	Best %	Worst %
3 Months	17.30 (Mar 09-May 09)	-20.02 (Sep 08-Nov 08)
1 Year	41.93 (Mar 09-Feb 10)	-30.76 (Mar 08-Feb 09)
3 Years	24.30 (Apr 95-Mar 98)	-9.55 (Mar 06-Feb 09)

Portfolio Yield (03-31-2011)	Yield %
12-Month Yield	1.68

Performance Disclosure

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See Disclosure Page for Standardized Returns.

Holdings 03-31-2011

Top 1 holding out of 1	Symbol	Type	Holding Value $	% Assets
Invesco Van Kampen Equity and Income A (USD)	ACEIX	MF	72,791	100.00

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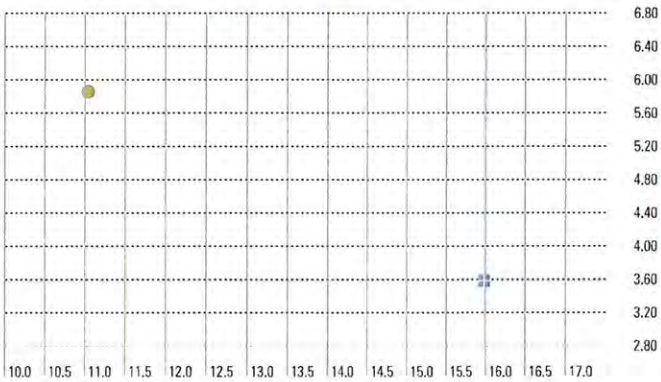
Portfolio Snapshot

Portfolio Value
$72,791

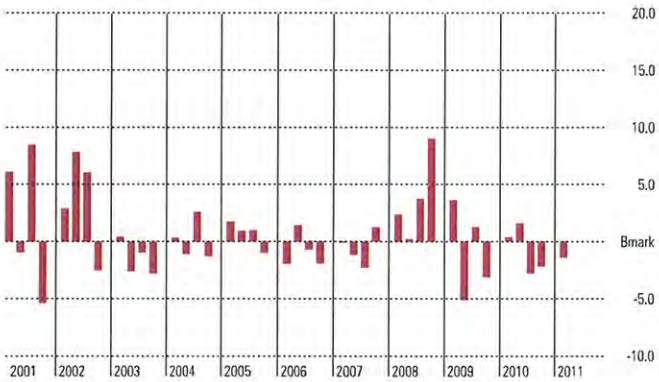
Benchmark
S&P 500 TR (USD)

Risk Analysis 03-31-2011

Risk/Reward Scatterplot Portfolio Holdings Bmark 10 Year Mean



Performance History Graph Portfolio Quarterly returns +/- Benchmark in %



Risk and Return Statistics	3 Yr Portfolio	3 Yr Bmark	5 Yr Portfolio	5 Yr Bmark	10 Yr Portfolio	10 Yr Bmark
Standard Deviation	16.04	21.89	13.03	17.87	11.04	15.98
Mean	5.69	2.88	4.45	2.87	5.86	3.58
Sharpe Ratio	0.39	0.20	0.23	0.12	0.38	0.15

MPT Statistics	3 Yr Portfolio	5 Yr Portfolio	10 Yr Portfolio
Alpha	3.01	1.47	2.51
Beta	0.72	0.71	0.66
R-Squared	96	95	91

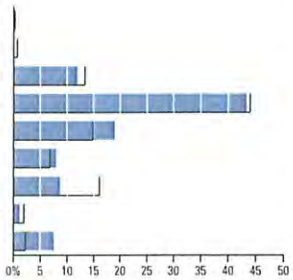
Fundamental Analysis 03-31-2011

Market Maturity % of Stocks	Portfolio	Bmark
Developed Markets	100.00	100.00
Emerging Markets	0.00	0.00
Not Available	**0.00**	**0.00**

Geometric Avg Capitalization ($Mil)	
Portfolio	44,879.69
Benchmark	50,179.19

Type Weightings

% of Stocks	Portfolio	Bmark
High Yield	0.00	0.23
Distressed	0.00	0.67
Hard Asset	11.94	13.30
Cyclical	43.35	43.95
Slow Growth	19.06	14.82
Classic Growth	8.02	6.74
Aggressive Growth	8.80	16.09
Speculative Growth	1.23	1.98
Not Available	**7.62**	**2.22**



Valuation Multiples	Portfolio	Bmark
Price/Earnings	11.06	16.13
Price/Book	1.73	2.26
Price/Sales	1.12	1.39
Price/Cash Flow	7.68	9.50

Profitability % of Stocks	Portfolio 2011-03	Bmark 2011-03
Net Margin	11.19	12.90
ROE	15.50	20.92
ROA	5.86	8.47
Debt/Capital	38.03	35.67

Fund Statistics	
Potential Cap Gains Exposure	7.85
Avg Net Expense Ratio	0.78
Avg Gross Expense Ratio	0.78

Credit Quality Breakdown	% of Bonds
AAA	55.11
AA	10.96
A	13.73
BBB	20.20
BB	0.00
B	0.00
Below B	0.00
NR/NA	0.00

Interest Rate Risk	Portfolio
Avg Eff Maturity	7.40
Avg Eff Duration (total portfolio)	4.85
Avg Credit Quality	—
Avg Wtd Coupon	3.55

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Portfolio Snapshot

Portfolio Value
$72,791

Benchmark
S&P 500 TR (USD)

Standardized and Tax Adjusted Returns

The performance data quoted represents past performance and does not guarantee future results. The investment return and principal value of an investment will fluctuate thus an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than return data quoted herein. For performance data current to the most recent month-end please visit http://advisor.morningstar.com/familyinfo.asp

An investment in a money-market vehicle is not insured or guaranteed by the FDIC or any other government agency. The current yield quotation reflects the current earnings of the money market more closely than the total return quotation. Although money markets seek to preserve the value of your investment at $1.00 per share, it is possible to lose money by investing in them.

Standardized Returns assume reinvestment of dividends and capital gains. It depicts performance without adjusting for the effects of taxation, but are adjusted to reflect sales charges and ongoing fund expenses.

If adjusted for taxation, the performance quoted would be significantly reduced.

For variable annuities, additional expenses will be taken in account, including M&E risk charges, fund-level expenses such as management fees and operating fees, and contract-level administration fees, charges such as surrender, contract and sales charges.

After-tax returns are calculated using the highest individual federal marginal income tax rates, and do not reflect the impact of state and local taxes. Actual after tax returns depend on the investor's tax situation and may differ from those shown. The after tax returns shown are not relevant to investors who hold their fund shares through tax-deferred arrangements such as 401(k) plans or an IRA. After-tax returns exclude the effects of either the alternative minimum tax or phase-out of certain tax credits. Any taxes due are as of the time the distributions are made, and the taxable amount and tax character of each distribution is as specified by the fund on the dividend declaration date. Due to foreign tax credits or realized capital losses, after-tax returns may be greater than before tax returns. After-tax returns for exchange-traded funds are based on net asset value.

Annualized returns 03-31-2011

Standardized Returns (%)	7-day Yield	1Yr	5Yr	10Yr	Since Inception	Inception Date	**Max Front Load %**	**Max Back Load %**	**Net Exp Ratio %**	**Gross Exp Ratio %**
Invesco Van Kampen Equity and Income A (USD)	—	4.96	3.23	5.31	10.30	08-03-1960	**5.50**	**NA**	**0.78**	**0.78**
BarCap US Agg Bond TR USD	—	**5.12**	**6.03**	**5.56**	—	—				
MSCI EAFE NR USD	—	**10.42**	**1.30**	**5.39**	—	—				
S&P 500 TR	—	**15.65**	**2.62**	**3.29**	—	—				
USTREAS T-Bill Auction Ave 3 Mon	—	**0.15**	**2.08**	**2.14**	—	—				

Return after Tax (%)	On Distribution					On Distribution and Sales of Shares			
	1Yr	5Yr	10Yr	Since Inception	Inception Date	1Yr	5Yr	10Yr	Since Inception
Invesco Van Kampen Equity and Income A (USD)	4.28	2.14	4.18	6.37	08-03-1960	3.18	2.20	3.99	6.27

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Portfolio Snapshot

Portfolio Value
$72,791

Benchmark
S&P 500 TR (USD)

Illustration Returns

Total 1 holding as of 03-31-2011	Symbol	Type	Holdings Date	% of Assets	Holding Value $	7-day Yield	1 Yr Ret %	3 Yr Ret %	5 Yr Ret %	10 Yr Ret %
Invesco Van Kampen Equity and Income A (USD)	ACEIX	MF	12-2010	100.00	72,791	—	11.08	5.69	4.45	5.86

Performance Disclosure

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See Disclosure Page for Standardized Returns.

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Hypothetical Report Disclosure Statement

General
This is an illustration of a simulated investment and assumes the portfolio holding(s) were purchased on the first day of the period indicated. Sales and tax charges, including those required in the event of transfers between assets, are taken into account at the rates shown and may be higher or lower than what an investor would have actually paid had the investments been purchased then or now. The performance data represents past performance and is not indicative of future results. Principal value and investment returns will fluctuate, and an investor's shares/units when redeemed may be worth more or less than the original investment.

The underlying holdings of the portfolio are not federally or FDIC-insured and are not deposits or obligations of, or guaranteed by, any financial institution. Investment in securities involve investment risks including possible loss of principal and fluctuation in value.

The investment returns do not reflect active trading and do not necessarily reflect the results that might have been achieved by active management of the account. The investment returns of other clients of the adviser may differ materially from the investment portrayed.

The information contained in this report is from the most recent information available to Morningstar as of the release date, and may or may not be an accurate reflection of the current composition of the securities included in the portfolio. There is no assurance that the weightings, composition and ratios will remain the same.

Pre-inception Returns
The analysis in this report may be based, in part, on adjusted historical returns for periods prior to the fund's actual inception. These calculated returns reflect the historical performance of the oldest share class of the fund, adjusted to reflect the fees and expenses of this share class. These fees and expenses are referenced in the report's Charges and Fees section.

When pre-inception data are presented in the report, the header at the top of the report will indicate this.

While the inclusion of pre-inception data provides valuable insight into the probable long-term behavior of newer share classes of a fund, investors should be aware that an adjusted historical return can only provide an approximation of that behavior. For example, the fee structures between a retail share class will vary from that of an institutional share class, as retail shares tend to have higher operating expenses and sales charges. These adjusted historical returns are not actual returns. Calculation methodologies utilized by Morningstar may differ from those applied by other entities, including the fund itself.

The investment returns do not necessarily reflect the deduction of all investment advisory fees. Client investment returns may be reduced if additional fees are incurred.

Performance for closed-end and exchange-traded funds is calculated based on the fund's end of the day market prices as reported by the New York Stock Exchange. Separate account performance is based on the mean experience of an investor in the account.

This illustration may reflect the results of systematic investments and/or withdrawals. Systematic investment does not ensure a profit, nor does it protect the investor against a loss in a declining market. Also, systematic investing will not keep an investor from losing money if shares are sold when the market is down.

Investment Summary Graph
The investment summary graph plots the approximate market value of the security or portfolio over the investing horizon. It may also include the total investment assumed in the illustration and/or a benchmark. Total investment includes dollar inflows and outflows, including inflows representing noted taxes and annual fees paid out of pocket. If a benchmark index is included on a graph, it assumes a similar pattern of investment/withdrawal as for the security or portfolio. Taxes and transaction costs are aslo applied to the benchmark index. Note that direct investment in an index is not possible. Indexes are unmanaged portfolios representing different asset classes, with varying levels of associated risk. The benchmark index included in the graph may or may not represent an appropriate or accurate comparison with the security or portfolio illustrated.

Standardized Returns
For ETFs, the standardized returns reflect performance, both at market price and NAV price, without adjusting for the effects of taxation or brokers commissions. These returns are adjusted to reflect all ongoing ETF expenses and assume reinvestment of dividends and capital gains. If adjusted, the effects of taxation would reduce the performance quoted.

For HOLDs, the standardized returns reflect performance at market price, without adjusting for the effects of taxation or brokers commissions. These returns are adjusted to reflect all ongoing expenses and assume reinvestment of dividends and capital gains. If adjusted, the effects of taxation would reduce the performaance quoted.

For money market mutual funds, standardized return is total return adjusted for sales charges and reflects all ongoing fund expenses. Current 7-day yield more closely reflects the current earnings of the money market fund than the total return quotation.

For mutual funds, standardized return is total return adjusted for sales charges and reflects all ongoing fund expenses. Following this disclosure statement, standardized returns for each portfolio holding are shown.

For VA subaccounts, standardized return is total return based on its inception date within the separate account and is adjusted to reflect recurring and non-recurring charges such as surrender fees, contract charges, maximum front-end load, maximum deferred load, maximum M&E risk charge, administration fees, and actual ongoing fund-level expenses.

For VL subaccounts, standardized return is total return based on its inception date within the separate account and is adjusted to reflect recurring and non-recurring charges such as surrender fees, contract charges, maximum front-end load, maximum deferred load, maximum M&E risk charge, administration fees, and actual ongoing fund-level expenses. For VLs, additional fees specific to a VL policy such as transfer fees and cost of insurance fees, which are based on specific characteristics on an individual, are not included. If VL fees were included in the return calculations, the performance would have been significantly lower. An investor should contact their financial advisor and ask for a personalized performance illustration, either hypothetical or historical, which reflects all applicable fees and charges including the cost of insurance. Please review the prospectus and SAI for more detailed information.

Definitions of Report Terms
*Annual Fee Paid:*Your advisor was able to specify whether annual fees, if any, should be assumed paid out of pocket or from selling shares of securities held in

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the illustration.

*Average Annualized Return:*Average annualized money-weighted return (internal rate of return). In illustrations with time periods less than one year, this figure is not annualized.

*Capital Gains (Individual Report):*Percentage of the total market value of the holding that is attributable to the reinvestment of capital gains distributions.

*Charges & Fees (Investment Detail):*The sum of fees charged to the investor during the period, including front or deferred loads, VA charges, and annual fees.

*Cumulative Return:*The total money-weighted return of the investment over the entire time period of the illustration.

*Distribution/Withdrl:*The sum of distributions not reinvested, plus any cash withdrawals during the period.

*Income (Individual Report):*The percentage of the total market value of the holding that is attributable to the reinvestment of income or dividend distributions.

*Liquidate:*Indicates whether the advisor chose that the holding be liquidated on the end date.

*Median (Comparison Report):*The total money-weighted return (internal rate of return) of the median security in the illustration for the calendar year indicated.

*New investment:*Any new cash invested during the period.

*Principal (Individual Reports):*The percentage of the total market value of the holding that is attributable to new investment.

*Rebalance(Planning Assumptions):*Indicates whether rebalancing is used, and its frequency. "No" indicates no rebalancing. Options for rebalancing frequency are monthly, quarterly, semi-annually, and annually.

*Rebalance(Investment Assumptions):*Percentage of total asset allocation to be maintained in this holding through rebalancing.

*Securities Returns(Comparison Report):*The total money-weighted return (internal rate of return) for the holding in the calendar year indicated, taking into account cash flows, charges, and fees.

*Subsequent Invest/Withdwl:*The amount, type, and frequency of subsequent investments or withdrawals from the holding. Withdrawals are represented by a negative number. Systematic investments and withdrawals may be made monthly, quarterly, semi-annually, or annually. If "Custom, " a custom schedule of investments or withdrawals was used.

*Taxes Due:*The total amount of taxes due from the investor, determined by applying specified tax rates to distributions and sale of shares during each calendar year.

*Taxes Paid:*Your advisor was able to specify whether taxes, if any, should be assumed paid out of pocket or from selling shares of securities held in the illustration.

*Net Dollars Invested:*The total out-of-pocket expense for the investor. Includes new investment, annual fees paid to advisor, and taxes due. This figure is net of withdrawals, including liquidation.

*Total Reinvest:*The sum of distributions reinvested during the period.

*Total Return %:*The total money-weighted return (internal rate of return) on investments for the period.

Portfolio Snapshot Report Disclosure Statement

General

Investment portfolios illustrated in this report can be scheduled or unscheduled. With an unscheduled portfolio, the user inputs only the portfolio holdings and their current allocations. Morningstar calculates returns using the given allocations assuming monthly rebalancing. Taxes, loads, and sales charges are not taken into account.

With "scheduled" portfolios, users input the date and amount for all investments into and withdrawals from each holding, as well as tax rates, loads, and other factors that would have affected portfolio performance. A hypothetical illustration is one type of scheduled portfolio.

Both scheduled and unscheduled portfolios are theoretical, for illustrative purposes only, and are not reflective of an investors actual experience. For both scheduled and unscheduled portfolios, the performance data given represents past performance and should not be considered indicative of future results. Principal value and investment return of stocks, mutual funds, and variable annuity/life products will fluctuate, and an investor's shares/units when redeemed will be worth more or less than the original investment. Stocks, mutual funds, and variable annuity/life products are not FDIC-insured, may lose value, and are not guaranteed by a bank or other financial institution. Portfolio statistics change over time.

Used as supplemental sales literature, the Portfolio Snapshot report must be preceded or accompanied by the fund/policy's current prospectus or equivalent. In all cases, this disclosure statement should accompany the Portfolio Snapshot report. Morningstar is not itself a FINRA-member firm.

The underlying holdings of the portfolio are not federally or FDIC-insured and are not deposits or obligations of, or guaranteed by any financial institution. Investment in securities involve investment risks including possible loss of principal and fluctuation in value.

The information contained in this report is from the most recent information available to Morningstar as of the release date, and may or may not be an accurate reflection of the current composition of the securities included in the portfolio. There is no assurance that the weightings, composition and ratios will remain the same.

Items to Note Regarding Certain Underlying Securities

A closed-end fund is an investment company, which typically makes one public offering of a fixed number of shares. Thereafter, shares are traded on a secondary market such as the New York Stock Exchange. As a result, the secondary market price may be higher or lower than the closed-end fund's net asset value (NAV). If these shares trade at a price above their NAV, they are said to be trading at a premium. Conversely, if they are trading at a price below their NAV, they are said to be trading at a discount.

An exchange-traded fund (ETF) is an investment company that typically has an

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investment objective of striving to achieve a similar return as a particular market index. The ETF will invest in either all or a representative sample of the securities included in the index it is seeking to imitate. Like closed-end funds, ETFs can be traded on a secondary market and thus have a market price that may be higher or lower than its net asset value. If these shares trade at a price above their NAV, they are said to be trading at a premium. Conversely, if they are trading at a price below their NAV, they are said to be trading at a discount.

A money market fund is an investment company that invests in commercial paper, banker's acceptances, repurchase agreements, government securities, certificates of deposit and other highly liquid securities, and pays money market rates of interest. Money markets are not FDIC-insured, may lose money, and are not guaranteed by a bank or other financial institution. Although the money market seeks to preserve a stable per share value (i.e. $1.00 per share), it is possible to lose money by investment in the fund.

Unit investment trust (UIT) is an investment company organized under a trust agreement between a sponsor and trustee. UITs typically purchase a fixed portfolio of securities and then sell units in the trust to investors. The major difference between a UIT and a mutual fund is that a mutual fund is actively managed, while a UIT is not. On a periodic basis, UITs usually distribute to the unit holder their pro rata share of the trust's net investment income and net realized capital gains, if any. If the trust is one that invests only in tax-free securities, then the income from the trust is also tax-free. UITs generally make one public offering of a fixed number of units. However, in some cases, the sponsor will maintain a secondary market that allows existing unit holders to sell their units and for new investors to buy units.

Variable annuities are tax-deferred investments structured to convert a sum of money into a series of payments over time. Variable annuity policies have limitations and are not viewed as short-term liquid investments. An insurance company's fulfillment of a commitment to pay a minimum death benefit, a schedule of payments, a fixed investment account guaranteed by the insurance company, or another form of guarantee depends on the claims-paying ability of the issuing insurance company. Any such guarantee does not affect or apply to the investment return or principal value of the separate account and its subaccount. The financial ratings quoted for an insurance company do not apply to the separate account and its subaccount. If the variable annuity subaccount is invested in a money-market fund, although it seeks to preserve a stable per share value (i.e. $1.00 per share), it is possible to lose money by investment in the fund.

Variable life insurance is a cash-value life insurance that has a variable cashvalue and/or death benefit depending on the investment performance of the subaccount into which premium payments are invested. Unlike traditional life insurance, variable life insurance has inherent risks associated with it, including market volatility, and is not viewed as a short-term liquid investment. For more information on a variable life product, including each subaccount, please read the current prospectus. Please note, the financial ratings noted on the report are quoted for an insurance company and do not apply to the separate account and its subaccount. If the variable life subaccount is invested in a money-market fund, although it seeks to preserve a stable per share value (i.e. $1.00 per share), it is possible to lose money by investment in the fund.

Pre-inception Returns

The analysis in this report may be based, in part, on adjusted historical returns for periods prior to the fund's actual inception. These calculated returns reflect the historical performance of the oldest share class of the fund, adjusted to reflect the fees and expenses of this share class. These fees and expenses are referenced in the report's list of holdings and again on the standardized returns page. When pre-inception data is presented in the report, the header at the top of the report will indicate this and the affected data elements will be displayed in italics.

While the inclusion of pre-inception data provides valuable insight into the probable long-term behavior of newer share classes of a fund, investors should be aware that an adjusted historical return can only provide an approximation of that behavior. For example, the fee structures between a retail share class will vary from that of an institutional share class, as retail shares tend to have higher operating expenses and sales charges. These adjusted historical returns are not actual returns. Calculation methodologies utilized by Morningstar may differ from those applied by other entities, including the fund itself.

Scheduled Portfolio Trailing Returns

Scheduled Portfolios are customized by the user to account for loads, taxes, cash flows and specific investment dates. Scheduled portfolios use the portfolio's investment history to calculate final market values and returns. For scheduled portfolios, both individual holdings and portfolio returns are internal-rate-of-return calculations that reflect the timing and dollar size of all purchases and sales. For stocks and mutual funds, sales charges and tax rates are taken into account as specified by the user (except in the pre-tax returns, which reflect the impact of sales charges but not taxes). Note that in some scheduled portfolio illustrations, dividends and capital gains distributions, if applicable, are reinvested at the end of the month in which they are made at the month-end closing price. This can cause discrepancies between calculated returns and actual investor experience.

Scheduled Portfolio Returns-Based Performance Data

For scheduled portfolios, the monthly returns used to calculate alphas, betas, R-squareds, standard deviations, Sharpe ratios and best/worst time-period data are internal rates of return.

Important VA Disclosure for Scheduled Portfolios

For variable annuity products, policy level charges (other than front-end loads, if input by the advisor) are not factored into returns. When withdrawals and liquidations are made, increases in value over the purchase price are taxed at the capital gains rate that currently is in effect. This is not reflective of the actual tax treatment for these products, which requires the entire withdrawal to be taxed at the income tax rate. If adjusted for sales charges and the effects of taxation, the subaccount returns would be reduced.

Scheduled Portfolio Investment Activity Graph

The historic portfolio values that are graphed are those used to track theportfolio when calculating returns.

Unscheduled Portfolio Returns

Monthly total returns for unscheduled portfolios are calculated by applying theending period holding weightings supplied by the user to an individual holding's monthly returns. When monthly returns are unavailable for a holding (ie. Due to it not being in existence during the historical period being reported), the remaining portfolio holdings are re-weighted to maintain consistent proportions. Inception dates are listed in the Disclosure for Standardized and Tax Adjusted Returns. Trailing returns are calculated by geometrically linking these weighted-average monthly returns. Unscheduled portfolio returns thus assume monthly rebalancing. Returns for individual holdings are simple time-weighted trailing returns. Neither portfolio returns nor holding returns are adjusted for loads or taxes, and if adjusted for, would reduce the returns stated. The returns stated assume the reinvestment of dividends and capital gains. Mutual fund returns include all ongoing fund expenses. VA/VL returns reflect subaccount level fund expenses, including M&E expenses, administration fees, and actual ongoing fund level expenses.

Unscheduled Portfolio Investment Activity Graph

The historic performance data graphed is extrapolated from the ending portfolio

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value based on monthly returns.

Benchmark Returns
Benchmark returns may or may not be adjusted to reflect ongoing expenses such as sales charges. An investment's portfolio may differ significantly from the securities in the benchmark.

Returns for custom benchmarks are calculated by applying user-supplied weightings to each benchmark's returns every month. Trailing returns are calculated by geometrically linking these weighted-average monthly returns. Custom benchmark returns thus assume monthly rebalancing.

Standardized Returns
For mutual funds, standardized return is total return adjusted for sales charges, and reflects all ongoing fund expenses. Following this disclosure statement, standardized returns for each portfolio holding are shown.

For money market mutual funds, standardized return is total return adjusted for sales charges and reflects all ongoing fund expenses. Current 7-day yield more closely reflects the current earnings of the money market fund than the total return quotation.

For VA subaccounts, standardized return is total return based on its inception date within the separate account and is adjusted to reflect recurring and non-recurring charges such as surrender fees, contract charges, maximum front-end load, maximum deferred load, maximum M&E risk charge, administration fees and actual ongoing fund-level expenses.

For ETFs, the standardized returns reflect performance, both at market priceand NAV price, without adjusting for the effects of taxation or brokers commissions. These returns are adjusted to reflect all ongoing ETF expenses and assume reinvestment of dividends and capital gains. If adjusted, the effects of taxation would reduce the performance quoted.

The charges and expenses used in the standardized returns are obtained from the most recent prospectus and/or shareholder report available to Morningstar. For mutual funds and VAs, all dividends and capital gains are assumed to be reinvested. For stocks, stock acquired via divestitures is assumed to be liquidated and reinvested in the original holding.

Non-Standardized Returns
For mutual funds, total return is not adjusted for sales charges and reflects all ongoing fund expenses for various time periods. These returns assume reinvestment of dividends and capital gains. If adjusted for sales charges and the effects of taxation, the mutual fund returns would be reduced. Please note these returns can include pre-inception data and if included, this data will be represented in italics.

For money market funds, total return is not adjusted for sales charges and reflects all ongoing fund expenses for various time periods. These returns assume reinvestment of dividends and capital gains. If adjusted for sales charges and the effects of taxation, the money market returns would be reduced.

For VA and VL subaccounts, non-standardized returns illustrate performance that is adjusted to reflect recurring and non-recurring charges such as surrender fees, contract charges, maximum front-end load, maximum deferred load, maximum M&E risk charge, administrative fees and underlying fund-level expenses for various time periods. Non-Standardized performance returns assume reinvestment of dividends and capital gains. If adjusted for the effects of taxation, the subaccount returns would be significantly reduced. Please note these returns can include pre-inception data and if included, this data will be represented in italics.

Investment Advisory Fees
The investment(s) returns do not necessarily reflect the deduction of all investment advisory fees. Client investment returns will be reduced if additional advisory fees are incurred such as deferred loads, redemption fees, wrap fees, or other account charges.

Investment Style
The Morningstar Style Box reveals a fund's investment style as of the date noted on this report.

For equity funds the vertical axis shows the market capitalization of the long stocks owned and the horizontal axis shows investment style (value, blend, or growth).

For fixed-income funds, the vertical axis shows the credit quality of the long bonds owned and the horizontal axis shows interest rate sensitivity as measured by a bond's effective duration.

Morningstar seeks credit rating information from fund companies on a periodic basis (e.g., quarterly). In compiling credit rating information, Morningstar instructs fund companies to only use ratings that have been assigned by a Nationally Recognized Statistical Rating Organization (NRSRO). If two NRSROs have rated a security, fund companies are to report the lowest rating; if three or more NRSROs have rated the same security differently, fund companies are to report the rating that is in the middle. For example, if NRSRO X rates a security AA-, NRSRO Y rates the same security an A and NRSRO Z rates it a BBB+, the fund company should use the credit rating of 'A' in its reporting to Morningstar. PLEASE NOTE: Morningstar, Inc. is not itself an NRSRO nor does it issue a credit rating on the fund. An NRSRO rating on a fixed-income security can change from time-to-time.

For credit quality, Morningstar combines the credit rating information provided by the fund companies with an average default rate calculation to come up with a weighted-average credit quality. The weighted-average credit quality is currently a letter that roughly corresponds to the scale used by a leading NRSRO. Bond funds are assigned a style box placement of "low", "medium", or "high" based on their average credit quality. Funds with a low credit quality are those whose weighted-average credit quality is determined to be less than "BBB-"; medium are those less than "AA-", but greater or equal to "BBB-"; and high are those with a weighted-average credit quality of "AA-" or higher. When classifying a bond portfolio, Morningstar first maps the NRSRO credit ratings of the underlying holdings to their respective default rates (as determined by Morningstar's analysis of actual historical default rates). Morningstar then averages these default rates to determine the average default rate for the entire bond fund. Finally, Morningstar maps this average default rate to its corresponding credit rating along a convex curve.

For interest-rate sensitivity, Morningstar obtains from fund companies the average effective duration. Generally, Morningstar classifies a fixed-income fund's interest-rate sensitivity based on the effective duration of the Morningstar Core Bond Index (MCBI), which is currently three years. The classification of Limited will be assigned to those funds whose average effective duration is between 25% to 75% of MCBI's average effective duration; funds whose average effective duration is between 75% to 125% of the MCBI will be classified as Moderate; and those that are at 125% or greater of the average effective duration of the MCBI will be classified as Extensive.

For municipal bond funds, Morningstar also obtains from fund companies the average effective duration. In these cases static breakpoints are utilized. These breakpoints are as follows: (i) Limited: 4.5 years or less; (ii) Moderate: more

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than 4.5 years but less than 7 years; and (iii) Extensive: more than 7 years. In addition, for non-US taxable and non-US domiciled fixed income funds static duration breakpoints are used: (i) Limited: less than or equal to 3.5 years; (ii) Moderate: greater than 3.5 and less than equal to 6 years; (iii) Extensive: greater than 6 years.

Risk and Return
Standard deviation is a statistical measure of the volatility of a portfolio's returns around its mean.

Mean represents the annualized geometric return for the period shown.

Sharpe ratio uses a portfolio's standard deviation and total return to determine reward per unit of risk.

Alpha measures the difference between a portfolio's actual returns and its expected performance, given its beta and the actual returns of the benchmark index. Alpha is often seen as a measurement of the value added or subtracted by a portfolio's manager.

Beta is a measure of the degree of change in value one can expect in a portfolio given a change in value in a benchmark index. A portfolio with a beta greater than one is generally more volatile than its benchmark index, and a portfolio with a beta of less than one is generally less volatile than its benchmark index.

R-squared reflects the percentage of a portfolio's movements that is explained by movements in its benchmark index, showing the degree of correlation between the portfolio and a benchmark. This figure is also helpful in assessing how likely it is that alpha and beta are statistically significant.

Fundamental Analysis
The below referenced data elements are a weighted average of the equity holdings in the portfolio.

The median market capitalization of a subaccount's equity portfolio gives you a measure of the size of the companies in which the subaccount invests.

The Price/Cash Flow ratio is a weighted average of the price/cash-flow ratios of the stocks in a subaccounts portfolio. Price/cash-flow shows the ability of a business to generate cash and acts as a gauge of liquidity and solvency.

The Price/Book ratio is a weighted average of the price/book ratios of all the stocks in the underlying fund's portfolio. The P/B ratio of a company is calculated by dividing the market price of its stock by the company's per-share book value. Stocks with negative book values are excluded from this calculation.

The Price/Earnings ratio is calculated by dividing the market value of the equity assets by the trailing 12 month earnings. The 12 month earnings value comes from multiplying the number of shares and the adjusted trailing 12 months' earnings per share for each equity asset and summing the results.

The Price/Sales ratio is a weighted average of the price/sales ratios of the stocks in the underlying fund's portfolio. The P/S ratio of a stock is calculated by dividing the current price of the stock by its trailing 12 months' revenues per share. In computing the average, Morningstar weights each portfolio holding by the percentage of equity assets it represents.

The return on assets (ROA) is the percentage a company earns on its assets in a given year. The calculation is net income divided by end-of-year total assets, multiplied by 100.

The Return on Equity (ROE) is the percentage a company earns on its shareholders' equity in a given year. The calculation is net income divided by end-of-year net worth, multiplied by 100.

Market Maturity shows the percentage of a holding's common stocks that are domiciled in developed and emerging markets.

The data elements listed below are a weighted average of the fixed income holdings in the portfolio.

Average maturity is used for holdings in the taxable fixed-income category. This is a weighted average of all the maturities of the bonds in a portfolio, computed by weighting each maturity date by the market value of the security.

Credit quality breakdowns are shown for corporate-bond holdings and depict the quality of bonds in the underlying portfolio. The report shows the percentage of fixed-income securities that fall within each credit quality rating as assigned by an NRSRO. Bonds not rated by an NRSRO are included in the not rated (NR) category.

Debt as a percentage of capital is calculated by dividing long-term debt by total capitalization (the sum of common equity plus preferred equity plus long-term debt). This figure is not provided for financial companies.

Duration is a time measure of a bonds interest-rate sensitivity.

Net Margin is a measure of profitability. It is equal to annual net income divided by revenues from the same period for the past five fiscal years, multiplied by 100.

Type Weightings divide the stocks in a given holding's portfolio into eight type designations each of which defines a broad category of investment characteristics. Not all stocks in a given holding's portfolio are assigned a type. These stocks are grouped under NA.

The data elements listed below are a weighted average of the total holdings in the portfolio.

The average expense ratio is the percentage of assets deducted each year for operating expenses, management fees, and all other asset-based costs incurred by the fund, excluding brokerage fees. Please note for mutual funds, variable annuities/life, ETF and closed-end funds we use the gross prospectus ratio as provided in the prospectus. Separate accounts and stocks are excluded from the average expense ratio.

Potential capital gains exposure is the percentage of a holdings total assets that represent capital appreciation.

Investment Risks

International/Emerging Market Equities: Investing in international securities involve special additional risks. These risks include, but are not limited to, currency risk, political risk, and risk associated with varying accounting standards. Investing in emerging markets may accentuate these risks.

Sector Strategies: Portfolios that invest exclusively in one sector or industry involve additional risks. The lack of industry diversification subjects the investor to increased industry-specific risks.

Non-Diversified Strategies: Portfolios that invest a significant percentage of

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assets in a single issuer involve additional risks, including share price fluctuations, because of the increased concentration of investments.

Small Cap Equities: Portfolios that invest in stocks of small companies involve additional risks. Smaller companies typically have a higher risk of failure, and are not as well established as larger blue-chip companies. Historically, smaller-company stocks have experienced a greater degree of market volatility that the overall market average.

Mid Cap Equities: Portfolios that invest in companies with market capitalization below $10 billion involve additional risks. The securities of these companies may be more volatile and less liquid than the securities of larger companies.

High-Yield Bonds: Portfolios that invest in lower-rated debt securities (commonly referred as junk bonds) involve additional risks because of the lower credit quality of the securities in the portfolio. The investor should be aware of the possible higher level of volatility, and increased risk of default.

Tax-Free Municipal Bonds: The investor should note that the income from tax-free municipal bond funds may be subject to state and local taxation and the Alternative Minimum Tax.

Bonds: Bonds are subject to interest rate risk. As the prevailing level of bond interest rates rise, the value of bonds already held in a portfolio decline. Portfolios that hold bonds are subject to declines and increases in value due to general changes in interest rates.

HOLDRs: The investor should note that these are narrow industry-focused products that, if the industry is hit by hard times, will lack diversification and possible loss of investment would be likely. These securities can trade at a discount to market price, ownership is of a fractional share interest, the underlying investments may not be representative of the particular industry, the HOLDR might be delisted from the AMEX if the number of underlying companies drops below nine, and the investor may experience trading halts.

Hedge Funds: The investor should note that hedge fund investing involves specialized risks that are dependent upon the type of strategies undertaken by the manager. This can include distressed or event-driven strategies, long/short strategies, using arbitrage (exploiting price inefficiencies), international investing, and use of leverage, options and/or derivatives. Although the goal of hedge fund managers may be to reduce volatility and produce positive absolute return under a variety of market conditions, hedge funds may involve a high degree of risk and are suitable only for investors of substantial financial means who could bear the entire loss of their investment.

Bank Loan/Senior Debt: Bank loans and senior loans are impacted by the risks associated with fixed income in general, including interest rate risk and default risk. They are often non-investment grade; therefore, the risk of default is high. These securities are also relatively illiquid. Managed products that invest in bank loans/senior debt are often highly leveraged, producing a high risk of return volatility.

Short Positions: When a short position moves in an unfavorable way, the losses are theoretically unlimited. The broker may demand more collateral and a manager might have to close out a short position at an inopportune time to limit further losses.

Long-Short: Due to the strategies used by long-short funds, which may include but are not limited to leverage, short selling, short-term trading, and investing in derivatives, these funds may have greater risk, volatility, and expenses than those focusing on traditional investment strategies.

Liquidity Risk: Closed-end fund, ETF, and HOLDR trading may be halted due to market conditions, impacting an investor's ability to sell a fund.

Market Price Risk: The market price of ETFs, HOLDRs, and closed-end funds traded on the secondary market is subject to the forces of supply and demand and thus independent of the NAV. This can result in the market price trading at a premium or discount to the NAV which will affect an investor's value.

Market Risk: The market prices of ETF's and HOLDRs can fluctuate as a result of several factors, such as security-specific factors or general investor sentiment. Therefore, investors should be aware of the prospect of market fluctuations and the impact it may have on the market price.

Target-Date Funds: Target-date funds typically invest in other mutual funds and are designed for investors who are planning to retire during the target date year. The fund's target date is the approximate date of when investors expect to begin withdrawing their money. Target-date fund's investment objective/strategy typically becomes more conservative over time primarily by reducing its allocation to equity mutual funds and increasing its allocations in fixed-income mutual funds. An investor's principal value in a target-date fund is not guaranteed at anytime, including at the fund's target date.

High double- and triple-digit returns were the result of extremely favorable market conditions, which may not continue to be the case. High returns for short time periods must not be a major factor when making investment decisions.

Benchmark Disclosure

BarCap US Agg Bond TR USD

This index is composed of the BarCap Government/Credit Index, the Mortgage-Backed Securities Index, and the Asset-Backed Securities Index. The returns we publish for the index are total returns, which include reinvestment of dividends.

MSCI EAFE NR USD

This Europe, Australasia, and Far East index is a market-capitalization-weighted index of 21 non-U.S., industrialized country indexes.

S&P 500 TR

A market capitalization-weighted index of 500 widely held stocks often used as a proxy for the stock market. TR (Total Return) indexes include daily reinvestment of dividends.

USTREAS T-Bill Auction Ave 3 Mon

Three-month T-bills are government-backed short-term investments considered to be risk-free and as good as cash because the maturity is only three months. Morningstar collects yields on the T-bill on a weekly basis from the Wall Street Journal.

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PFS INVESTMENTS INC.

Member of FINRA

Hypo Report

April 10, 2011

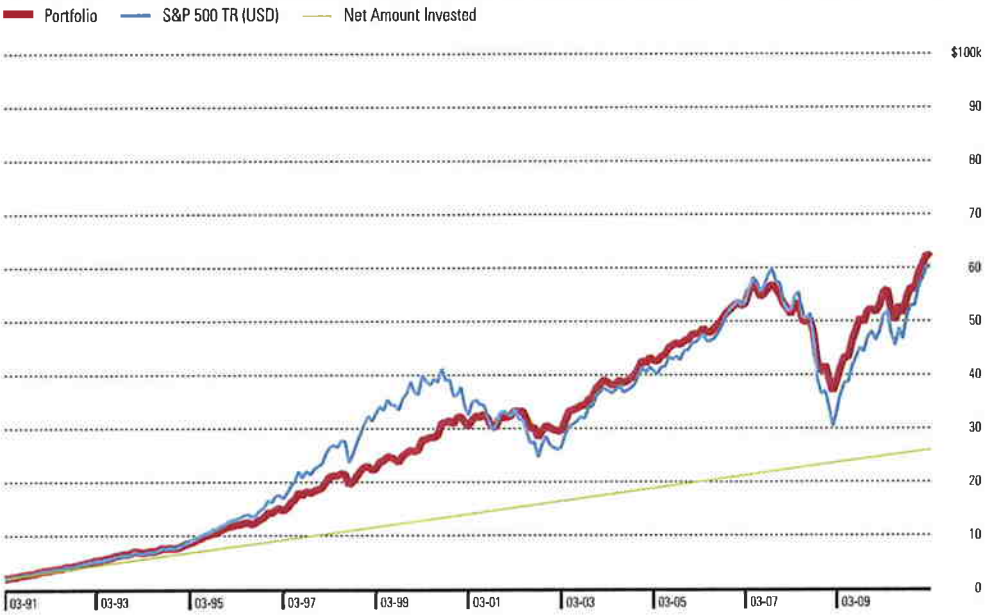
Prepared Especially For:

Your Representative:

Hypothetical Portfolio Illustration

03-31-1991 to 03-31-2011

Portfolio Summary



Planning Assumptions

Currency	USD
Rebalance	None
Annual Fee Paid	Sale of Shares
Federal Income Tax Rate	0%
Capital Gain Tax Rate	0%
State Tax Rate	0%
Tax Paid	Out of Pocket

Performance

Net Amount Invested	$26,000
Final Market Value	$61,860
Average Annualized Return	7.45%
Cumulative Return	321.14%

Investment Detail

Period		Beginning Balance	New Investment	Distribution/ Withdrawal	Total Reinvest	Charges & Fees	Taxes Due	Market Value	Total Return %
Totals		0	26,000	0	31,887	8,839	0	61,860	7.45
March	1991	0	2,000	0	0	8	0	1,993	-0.37
April	1991	1,993	100	0	0	0	0	2,097	0.22
May	1991	2,097	100	0	0	0	0	2,264	3.20
June	1991	2,264	100	0	25	9	0	2,284	-3.51
July	1991	2,284	100	0	0	0	0	2,479	4.16
August	1991	2,479	100	0	0	0	0	2,645	2.66
September	1991	2,645	100	0	29	10	0	2,735	-0.38
October	1991	2,735	100	0	0	0	0	2,883	1.74
November	1991	2,883	100	0	0	0	0	2,915	-2.37
December	1991	2,915	100	0	42	12	0	3,233	7.49
January	1992	3,233	100	0	0	0	0	3,313	-0.63
February	1992	3,313	100	0	0	0	0	3,468	1.66
March	1992	3,468	100	0	36	13	0	3,498	-2.02
April	1992	3,498	100	0	0	0	0	3,664	1.89
May	1992	3,664	100	0	0	0	0	3,816	1.44
June	1992	3,816	100	0	39	15	0	3,863	-1.40
July	1992	3,863	100	0	0	0	0	4,091	3.32
August	1992	4,091	100	0	0	0	0	4,158	-0.81
September	1992	4,158	100	0	42	16	0	4,292	0.83
October	1992	4,292	100	0	0	0	0	4,410	0.40
November	1992	4,410	100	0	0	0	0	4,625	2.62
December	1992	4,625	100	0	41	18	0	4,794	1.49
January	1993	4,794	100	0	0	0	0	5,006	2.33
February	1993	5,006	100	0	0	0	0	5,182	1.52

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PFS INVESTMENTS INC.

Hypothetical Portfolio Illustration

03-31-1991 to 03-31-2011

Investment Detail

Period		Beginning Balance	New Investment	Distribution/ Withdrawal	Total Reinvest	Charges & Fees	Taxes Due	Market Value	Total Return %
Totals		0	26,000	0	31,887	8,839	0	61,860	7.45
March	1993	5,182	100	0	72	20	0	5,393	2.14
April	1993	5,393	100	0	0	0	0	5,402	-1.67
May	1993	5,402	100	0	0	0	0	5,574	1.32
June	1993	5,574	100	0	44	22	0	5,738	1.15
July	1993	5,738	100	0	0	0	0	5,890	0.92
August	1993	5,890	100	0	0	0	0	6,184	3.29
September	1993	6,184	100	0	46	24	0	6,317	0.54
October	1993	6,317	100	0	0	0	0	6,495	1.23
November	1993	6,495	100	0	0	0	0	6,493	-1.57
December	1993	6,493	100	0	273	25	0	6,742	2.29
January	1994	6,742	100	0	0	0	0	7,048	3.06
February	1994	7,048	100	0	0	0	0	6,963	-2.62
March	1994	6,963	100	0	99	25	0	6,771	-4.20
April	1994	6,771	100	0	0	0	0	6,935	0.94
May	1994	6,935	100	0	0	0	0	7,074	0.56
June	1994	7,074	100	0	55	26	0	7,016	-2.22
July	1994	7,016	100	0	0	0	0	7,304	2.68
August	1994	7,304	100	0	0	0	0	7,622	2.98
September	1994	7,622	100	0	58	28	0	7,557	-2.16
October	1994	7,557	100	0	0	0	0	7,713	0.74
November	1994	7,713	100	0	0	0	0	7,557	-3.32
December	1994	7,557	100	0	172	29	0	7,686	0.38
January	1995	7,686	100	0	0	0	0	8,009	2.90
February	1995	8,009	100	0	0	0	0	8,366	3.20
March	1995	8,366	100	0	68	32	0	8,609	1.71
April	1995	8,609	100	0	0	0	0	8,910	2.34
May	1995	8,910	100	0	0	0	0	9,339	3.70
June	1995	9,339	100	0	67	36	0	9,582	1.52
July	1995	9,582	100	0	0	0	0	9,987	3.19
August	1995	9,987	100	0	0	0	0	10,135	0.49
September	1995	10,135	100	0	69	39	0	10,478	2.39
October	1995	10,478	100	0	0	0	0	10,495	-0.79
November	1995	10,495	100	0	0	0	0	11,064	4.47
December	1995	11,064	100	0	642	43	0	11,382	1.97
January	1996	11,382	100	0	0	0	0	11,699	1.90
February	1996	11,699	100	0	0	0	0	11,817	0.15
March	1996	11,817	100	0	182	45	0	12,037	1.02
April	1996	12,037	100	0	0	0	0	12,136	0.00
May	1996	12,136	100	0	0	0	0	12,444	1.71
June	1996	12,444	100	0	67	47	0	12,506	-0.30
July	1996	12,506	100	0	0	0	0	12,126	-3.84
August	1996	12,126	100	0	0	0	0	12,555	2.71
September	1996	12,555	100	0	68	49	0	13,045	3.11
October	1996	13,045	100	0	0	0	0	13,421	2.11

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Hypothetical Portfolio Illustration

03-31-1991 to 03-31-2011

Investment Detail

Period		Beginning Balance	New Investment	Distribution/ Withdrawal	Total Reinvest	Charges & Fees	Taxes Due	Market Value	Total Return %
Totals		0	26,000	0	31,887	8,839	0	61,860	7.45
November	1996	13,421	100	0	0	0	0	14,355	6.21
December	1996	14,355	100	0	710	54	0	14,248	-1.44
January	1997	14,248	100	0	0	0	0	14,855	3.56
February	1997	14,855	100	0	0	0	0	15,104	1.00
March	1997	15,104	100	0	320	55	0	14,707	-3.29
April	1997	14,707	100	0	0	0	0	15,290	3.28
May	1997	15,290	100	0	0	0	0	16,273	5.78
June	1997	16,273	100	0	78	63	0	16,855	2.96
July	1997	16,855	100	0	0	0	0	18,163	7.17
August	1997	18,163	100	0	0	0	0	17,498	-4.21
September	1997	17,498	100	0	79	69	0	18,332	4.20
October	1997	18,332	100	0	0	0	0	17,977	-2.49
November	1997	17,977	100	0	0	0	0	18,420	1.91
December	1997	18,420	100	0	1,992	70	0	18,720	1.08
January	1998	18,720	100	0	0	0	0	18,923	0.55
February	1998	18,923	100	0	0	0	0	20,011	5.22
March	1998	20,011	100	0	292	79	0	20,979	4.34
April	1998	20,979	100	0	0	0	0	21,211	0.63
May	1998	21,211	100	0	0	0	0	21,258	-0.25
June	1998	21,258	100	0	94	81	0	21,613	1.20
July	1998	21,613	100	0	0	0	0	21,444	-1.25
August	1998	21,444	100	0	0	0	0	19,515	-9.46
September	1998	19,515	100	0	95	76	0	20,124	2.61
October	1998	20,124	100	0	0	0	0	21,208	4.89
November	1998	21,208	100	0	0	0	0	22,215	4.27
December	1998	22,215	100	0	1,226	86	0	22,849	2.41
January	1999	22,849	100	0	0	0	0	22,920	-0.13
February	1999	22,920	100	0	0	0	0	22,286	-3.20
March	1999	22,286	100	0	344	85	0	22,522	0.61
April	1999	22,522	100	0	0	0	0	23,820	5.32
May	1999	23,820	100	0	0	0	0	24,040	0.50
June	1999	24,040	100	0	106	93	0	24,787	2.69
July	1999	24,787	100	0	0	0	0	24,613	-1.10
August	1999	24,613	100	0	0	0	0	24,348	-1.49
September	1999	24,348	100	0	107	89	0	23,698	-3.08
October	1999	23,698	100	0	0	0	0	24,966	4.93
November	1999	24,966	100	0	0	0	0	25,467	1.61
December	1999	25,467	100	0	2,295	98	0	26,013	1.75
January	2000	26,013	100	0	0	0	0	25,772	-1.31
February	2000	25,772	100	0	0	0	0	26,043	0.66
March	2000	26,043	100	0	831	105	0	27,907	6.77
April	2000	27,907	100	0	0	0	0	28,007	0.00
May	2000	28,007	100	0	0	0	0	28,390	1.01
June	2000	28,390	100	0	160	107	0	28,399	-0.32

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Hypothetical Portfolio Illustration

03-31-1991 to 03-31-2011

Investment Detail

Period		Beginning Balance	New Investment	Distribution/ Withdrawal	Total Reinvest	Charges & Fees	Taxes Due	Market Value	Total Return %
Totals		0	26,000	0	31,887	8,839	0	61,860	7.45
July	2000	28,399	100	0	0	0	0	28,821	1.13
August	2000	28,821	100	0	0	0	0	31,005	7.23
September	2000	31,005	100	0	162	117	0	31,189	0.27
October	2000	31,189	100	0	0	0	0	31,469	0.58
November	2000	31,469	100	0	0	0	0	30,879	-2.19
December	2000	30,879	100	0	2,642	121	0	32,098	3.63
January	2001	32,098	100	0	0	0	0	32,238	0.12
February	2001	32,238	100	0	0	0	0	31,300	-3.22
March	2001	31,300	100	0	842	115	0	30,427	-3.11
April	2001	30,427	100	0	0	0	0	31,639	3.65
May	2001	31,639	100	0	0	0	0	32,400	2.09
June	2001	32,400	100	0	228	121	0	32,110	-1.20
July	2001	32,110	100	0	0	0	0	32,752	1.69
August	2001	32,752	100	0	0	0	0	31,931	-2.81
September	2001	31,931	100	0	231	114	0	30,306	-5.40
October	2001	30,306	100	0	0	0	0	30,322	-0.28
November	2001	30,322	100	0	0	0	0	31,906	4.89
December	2001	31,906	100	0	392	121	0	32,111	0.33
January	2002	32,111	100	0	0	0	0	32,125	-0.27
February	2002	32,125	100	0	0	0	0	32,441	0.67
March	2002	32,441	100	0	470	125	0	33,318	2.40
April	2002	33,318	100	0	0	0	0	33,111	-0.92
May	2002	33,111	100	0	0	0	0	33,255	0.13
June	2002	33,255	100	0	185	119	0	31,650	-5.13
July	2002	31,650	100	0	0	0	0	29,886	-5.89
August	2002	29,886	100	0	0	0	0	30,297	1.04
September	2002	30,297	100	0	188	106	0	28,281	-6.98
October	2002	28,281	100	0	0	0	0	29,460	3.81
November	2002	29,460	100	0	0	0	0	30,508	3.22
December	2002	30,508	100	0	190	113	0	30,140	-1.53
January	2003	30,140	100	0	0	0	0	29,784	-1.51
February	2003	29,784	100	0	0	0	0	29,610	-0.92
March	2003	29,610	100	0	193	111	0	29,514	-0.66
April	2003	29,514	100	0	0	0	0	31,274	5.62
May	2003	31,274	100	0	0	0	0	33,224	5.92
June	2003	33,224	100	0	195	126	0	33,482	0.47
July	2003	33,482	100	0	0	0	0	33,768	0.56
August	2003	33,768	100	0	0	0	0	34,242	1.11
September	2003	34,242	100	0	197	129	0	34,221	-0.35
October	2003	34,221	100	0	0	0	0	35,405	3.17
November	2003	35,405	100	0	0	0	0	35,883	1.07
December	2003	35,883	100	0	199	142	0	37,612	4.54
January	2004	37,612	100	0	0	0	0	38,236	1.39
February	2004	38,236	100	0	0	0	0	39,099	2.00

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Hypothetical Portfolio Illustration

03-31-1991 to 03-31-2011

Investment Detail

Period		Beginning Balance	New Investment	Distribution/ Withdrawal	Total Reinvest	Charges & Fees	Taxes Due	Market Value	Total Return %
Totals		0	26,000	0	31,887	8,839	0	61,860	7.45
March	2004	39,099	100	0	201	145	0	38,537	-1.69
April	2004	38,537	100	0	0	0	0	38,060	-1.50
May	2004	38,060	100	0	0	0	0	38,305	0.38
June	2004	38,305	100	0	203	147	0	38,946	1.41
July	2004	38,946	100	0	0	0	0	38,561	-1.25
August	2004	38,561	100	0	0	0	0	38,806	0.38
September	2004	38,806	100	0	205	148	0	39,402	1.28
October	2004	39,402	100	0	0	0	0	39,943	1.12
November	2004	39,943	100	0	0	0	0	41,318	3.19
December	2004	41,318	100	0	346	161	0	42,696	3.09
January	2005	42,696	100	0	0	0	0	42,102	-1.62
February	2005	42,102	100	0	0	0	0	43,244	2.48
March	2005	43,244	100	0	779	161	0	42,666	-1.57
April	2005	42,666	100	0	0	0	0	42,563	-0.48
May	2005	42,563	100	0	0	0	0	43,424	1.79
June	2005	43,424	100	0	231	165	0	43,794	0.62
July	2005	43,794	100	0	0	0	0	45,068	2.68
August	2005	45,068	100	0	0	0	0	45,475	0.68
September	2005	45,475	100	0	233	173	0	45,943	0.81
October	2005	45,943	100	0	0	0	0	45,580	-1.01
November	2005	45,580	100	0	0	0	0	46,350	1.47
December	2005	46,350	100	0	1,826	175	0	46,587	0.30
January	2006	46,587	100	0	0	0	0	47,546	1.84
February	2006	47,546	100	0	0	0	0	47,646	0.00
March	2006	47,646	100	0	1,005	180	0	47,759	0.03
April	2006	47,759	100	0	0	0	0	48,629	1.61
May	2006	48,629	100	0	0	0	0	48,012	-1.47
June	2006	48,012	100	0	273	180	0	47,881	-0.48
July	2006	47,881	100	0	0	0	0	48,812	1.74
August	2006	48,812	100	0	0	0	0	49,467	1.14
September	2006	49,467	100	0	284	190	0	50,388	1.66
October	2006	50,388	100	0	0	0	0	51,438	1.88
November	2006	51,438	100	0	0	0	0	52,153	1.20
December	2006	52,153	100	0	1,856	199	0	52,913	1.27
January	2007	52,913	100	0	0	0	0	53,419	0.77
February	2007	53,419	100	0	0	0	0	52,938	-1.09
March	2007	52,938	100	0	528	201	0	53,318	0.53
April	2007	53,318	100	0	0	0	0	55,473	3.85
May	2007	55,473	100	0	0	0	0	56,984	2.54
June	2007	56,984	100	0	324	211	0	56,136	-1.66
July	2007	56,136	100	0	0	0	0	54,580	-2.95
August	2007	54,580	100	0	0	0	0	55,153	0.87
September	2007	55,153	100	0	327	211	0	56,087	1.51
October	2007	56,087	100	0	0	0	0	56,843	1.17

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Hypothetical Portfolio Illustration

03-31-1991 to 03-31-2011

Investment Detail

Period		Beginning Balance	New Investment	Distribution/ Withdrawal	Total Reinvest	Charges & Fees	Taxes Due	Market Value	Total Return %
Totals		0	26,000	0	31,887	8,839	0	61,860	7.45
November	2007	56,843	100	0	0	0	0	55,987	-1.68
December	2007	55,987	100	0	2,260	207	0	55,007	-1.93
January	2008	55,007	100	0	0	0	0	53,302	-3.28
February	2008	53,302	100	0	0	0	0	52,404	-1.87
March	2008	52,404	100	0	408	193	0	51,221	-2.45
April	2008	51,221	100	0	0	0	0	53,081	3.44
May	2008	53,081	100	0	0	0	0	53,307	0.24
June	2008	53,307	100	0	344	188	0	50,022	-6.35
July	2008	50,022	100	0	0	0	0	49,931	-0.38
August	2008	49,931	100	0	0	0	0	50,476	0.89
September	2008	50,476	100	0	348	180	0	47,802	-5.49
October	2008	47,802	100	0	0	0	0	42,335	-11.65
November	2008	42,335	100	0	0	0	0	40,510	-4.55
December	2008	40,510	100	0	351	157	0	41,778	2.88
January	2009	41,778	100	0	0	0	0	39,158	-6.51
February	2009	39,158	100	0	0	0	0	36,790	-6.30
March	2009	36,790	100	0	274	146	0	38,860	5.36
April	2009	38,860	100	0	0	0	0	41,319	6.07
May	2009	41,319	100	0	0	0	0	43,324	4.61
June	2009	43,324	100	0	277	163	0	43,205	-0.51
July	2009	43,205	100	0	0	0	0	46,415	7.20
August	2009	46,415	100	0	0	0	0	48,437	4.14
September	2009	48,437	100	0	213	191	0	50,626	4.31
October	2009	50,626	100	0	0	0	0	49,726	-1.97
November	2009	49,726	100	0	0	0	0	51,962	4.30
December	2009	51,962	100	0	215	197	0	52,216	0.30
January	2010	52,216	100	0	0	0	0	51,712	-1.16
February	2010	51,712	100	0	0	0	0	52,887	2.08
March	2010	52,887	100	0	269	208	0	55,340	4.45
April	2010	55,340	100	0	0	0	0	55,912	0.85
May	2010	55,912	100	0	0	0	0	52,226	-6.77
June	2010	52,226	100	0	237	188	0	50,001	-4.45
July	2010	50,001	100	0	0	0	0	53,022	5.84
August	2010	53,022	100	0	0	0	0	51,352	-3.34
September	2010	51,352	100	0	240	205	0	54,355	5.65
October	2010	54,355	100	0	0	0	0	56,232	3.27
November	2010	56,232	100	0	0	0	0	56,058	-0.49
December	2010	56,058	100	0	287	223	0	59,111	5.27
January	2011	59,111	100	0	0	0	0	60,587	2.33
February	2011	60,587	100	0	0	0	0	62,479	2.96
March	2011	62,479	100	0	266	233	0	61,860	-1.15

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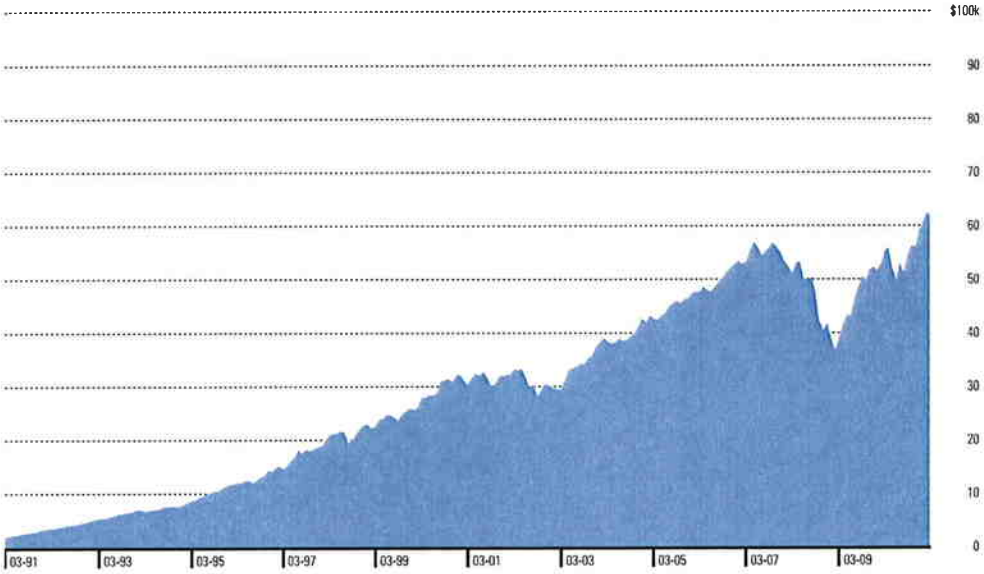
Hypothetical Portfolio Illustration Continued

03-31-1991 to 03-31-2011

Security Summary



% of Total Market Value

Start 03-31-1991

End 03-31-2011

Investment Assumptions

Investment Name	Holding Period Start	Holding Period End	Initial Investment Amount	Subsequent Invest/Withdwl Amount	Subsequent Invest/Withdwl Freq	Reinvest Distributions Income	Reinvest Distributions Cap Gains	Liqui-date	Re-balance %	Charges and Fees Front Load	Charges and Fees Annual Fee%	Charges and Fees Deferred Load Amount%	Charges and Fees Period Years	Market Value End $
Invesco Van Kampen Equity and Income A (USD)	03-91	03-11	2,000	100	Mon	Y	Y	N	—	$0.00	1.50	0.00-0.00	—	61,860

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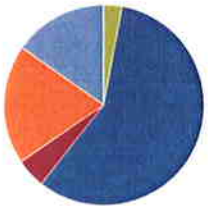
Portfolio Snapshot

Portfolio Value
$61,860

Benchmark
S&P 500 TR (USD)

Analysis 03-31-2011



Asset Allocation	Portfolio Net %	Bmark Net %
Cash	2.94	0.00
US Stocks	57.78	99.90
Non-US Stocks	4.79	0.10
Bonds	19.24	0.00
Other/Not Clsfd	**15.25**	**0.00**

Morningstar Equity Style Box %

Total Stock Holdings 78

	Value	Core	Growth
Large	41	36	17
Mid	3	2	1
Small	0	0	0

0-10 10-25 25-50 >50

Morningstar Fixed Income Style Box %

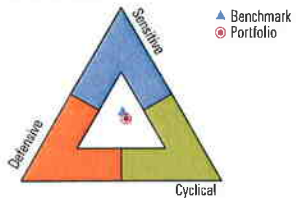
Total Bond Holdings 199

	Ltd	Mod	Ext
High	0	0	0
Med	0	100	0
Low	0	0	0

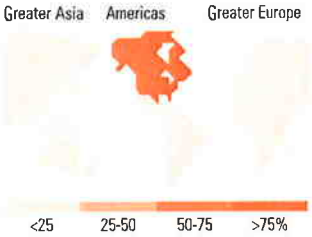
0-10 10-25 25-50 >50

Stock Analysis 03-31-2011

Stock Sectors



World Regions



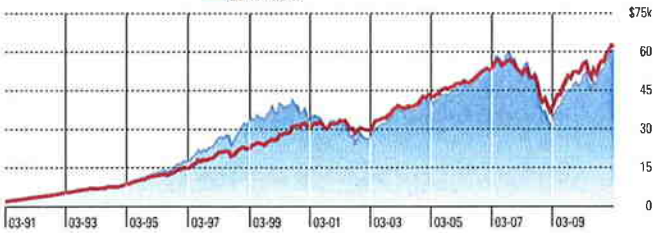
% of Stocks	Portfolio %	Bmark %
Cyclical	**36.43**	**28.50**
Basic Matls	3.28	2.96
Consumer Cycl	11.21	9.25
Financial Svs	21.94	14.67
Real Estate	0.00	1.62
Sensitive	**39.10**	**46.85**
Commun Svs	6.10	4.25
Energy	14.79	13.01
Industrials	9.87	12.93
Technology	8.34	16.66
Defensive	**24.47**	**24.65**
Consumer Def	10.71	10.73
Healthcare	9.71	10.79
Utilities	4.05	3.13
Not Classified	**0.00**	**0.00**

% of Stocks	Portfolio %	Bmark %
Greater Europe	**6.44**	**0.10**
United Kingdom	3.79	0.00
Europe-Developed	2.65	0.10
Europe-Emerging	0.00	0.00
Africa/Middle East	0.00	0.00
Americas	**92.35**	**99.91**
North America	92.35	99.91
Latin America	0.00	0.00
Greater Asia	**1.21**	**0.00**
Japan	1.21	0.00
Australasia	0.00	0.00
Asia-Developed	0.00	0.00
Asia-Emerging	0.00	0.00
Not Classified	**0.00**	**0.00**

Performance 03-31-2011

Investment Activity Graph — Portfolio — Benchmark

Final Mkt Val: $61,860



Trailing Returns	3 Mo	1 Yr	3 Yr	5 Yr	10 Yr
Portfolio Return	4.14	9.52	4.25	3.01	4.41
Benchmark Return	5.92	15.81	2.88	2.87	3.58
+/- Benchmark Return	-1.78	-6.29	1.37	0.14	0.83

Best/Worst Time Periods	Best %	Worst %
3 Months	16.90 (Mar 09-May 09)	-20.30 (Sep 08-Nov 08)
1 Year	39.93 (Mar 09-Feb 10)	-31.73 (Mar 08-Feb 09)
3 Years	23.01 (Apr 95-Mar 98)	-10.87 (Mar 06-Feb 09)

Portfolio Yield (03-31-2011)	Yield %
12-Month Yield	1.68

Performance Disclosure

The performance data quoted represents past performance and does not guarantee future results. The investment return and principal value of an investment will fluctuate thus an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than return data quoted herein. For performance data current to the most recent month-end, please visit http://advisor.morningstar.com/familyinfo.asp.

See Disclosure Page for Standardized Returns.

Holdings 03-31-2011

Top 1 holding out of 1	Symbol	Type	Holding Value $	% Assets
Invesco Van Kampen Equity and Income A (USD)	ACEIX	MF	61,860	100.00

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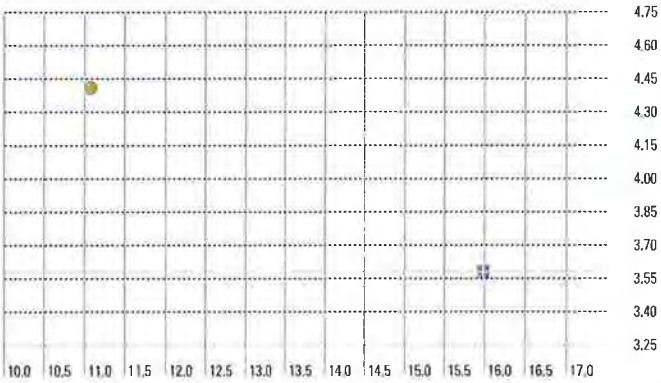
Portfolio Snapshot

Portfolio Value
$61,860

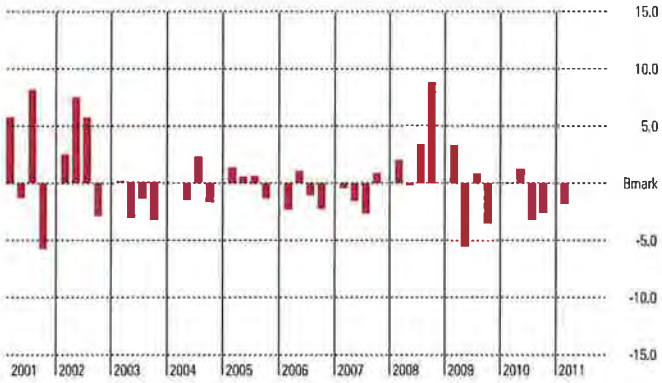
Benchmark
S&P 500 TR (USD)

Risk Analysis 03-31-2011

Risk/Reward Scatterplot Portfolio Holdings Bmark 10 Year Mean



Performance History Graph Portfolio Quarterly returns +/- Benchmark in %



Risk and Return Statistics	3 Yr Portfolio	3 Yr Bmark	5 Yr Portfolio	5 Yr Bmark	10 Yr Portfolio	10 Yr Bmark
Standard Deviation	15.97	21.89	12.99	17.87	11.07	15.98
Mean	4.25	2.88	3.01	2.87	4.41	3.58
Sharpe Ratio	0.30	0.20	0.12	0.12	0.25	0.15

MPT Statistics	3 Yr Portfolio	5 Yr Portfolio	10 Yr Portfolio
Alpha	1.61	0.06	1.13
Beta	0.72	0.71	0.66
R-Squared	96	95	91

Fundamental Analysis 03-31-2011

Market Maturity % of Stocks	Portfolio	Bmark
Developed Markets	100.00	100.00
Emerging Markets	0.00	0.00
Not Available	**0.00**	**0.00**

Geometric Avg Capitalization ($Mil)	
Portfolio	44,879.69
Benchmark	50,179.19

Valuation Multiples	Portfolio	Bmark
Price/Earnings	11.06	16.13
Price/Book	1.73	2.26
Price/Sales	1.12	1.39
Price/Cash Flow	7.68	9.50

Profitability % of Stocks	Portfolio 2011-03	Bmark 2011-03
Net Margin	11.19	12.90
ROE	15.50	20.92
ROA	5.86	8.47
Debt/Capital	38.03	35.67

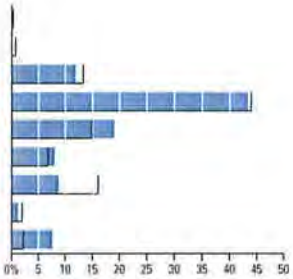
Fund Statistics	
Potential Cap Gains Exposure	7.85
Avg Net Expense Ratio	0.78
Avg Gross Expense Ratio	0.78

Credit Quality Breakdown	% of Bonds
AAA	55.11
AA	10.96
A	13.73
BBB	20.20
BB	0.00
B	0.00
Below B	0.00
NR/NA	0.00

Interest Rate Risk	Portfolio
Avg Eff Maturity	7.40
Avg Eff Duration (total portfolio)	4.85
Avg Credit Quality	—
Avg Wtd Coupon	3.55

Type Weightings

% of Stocks	Portfolio	Bmark
High Yield	0.00	0.23
Distressed	0.00	0.67
Hard Asset	11.94	13.30
Cyclical	43.35	43.95
Slow Growth	19.06	14.82
Classic Growth	8.02	6.74
Aggressive Growth	8.80	16.09
Speculative Growth	1.23	1.98
Not Available	**7.62**	**2.22**



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Portfolio Snapshot

Portfolio Value
$61,860

Benchmark
S&P 500 TR (USD)

Standardized and Tax Adjusted Returns

The performance data quoted represents past performance and does not guarantee future results. The investment return and principal value of an investment will fluctuate thus an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than return data quoted herein. For performance data current to the most recent month-end please visit http://advisor.morningstar.com/familyinfo.asp

An investment in a money-market vehicle is not insured or guaranteed by the FDIC or any other government agency. The current yield quotation reflects the current earnings of the money market more closely than the total return quotation. Although money markets seek to preserve the value of your investment at $1.00 per share, it is possible to lose money by investing in them.

Standardized Returns assume reinvestment of dividends and capital gains. It depicts performance without adjusting for the effects of taxation, but are adjusted to reflect sales charges and ongoing fund expenses.

If adjusted for taxation, the performance quoted would be significantly reduced.

For variable annuities, additional expenses will be taken in account, including M&E risk charges, fund-level expenses such as management fees and operating fees, and contract-level administration fees, charges such as surrender, contract and sales charges.

After-tax returns are calculated using the highest individual federal marginal income tax rates, and do not reflect the impact of state and local taxes. Actual after tax returns depend on the investor's tax situation and may differ from those shown. The after tax returns shown are not relevant to investors who hold their fund shares through tax-deferred arrangements such as 401(k) plans or an IRA. After-tax returns exclude the effects of either the alternative minimum tax or phase-out of certain tax credits. Any taxes due are as of the time the distributions are made, and the taxable amount and tax character of each distribution is as specified by the fund on the dividend declaration date. Due to foreign tax credits or realized capital losses, after-tax returns may be greater than before tax returns. After-tax returns for exchange-traded funds are based on net asset value.

Annualized returns 03-31-2011

Standardized Returns (%)	7-day Yield	1Yr	5Yr	10Yr	Since Inception	Inception Date	**Max Front Load %**	**Max Back Load %**	**Net Exp Ratio %**	**Gross Exp Ratio %**
Invesco Van Kampen Equity and Income A (USD)	—	4.96	3.23	5.31	10.30	08-03-1960	**5.50**	**NA**	**0.78**	**0.78**
BarCap US Agg Bond TR USD	—	**5.12**	**6.03**	**5.56**	—	—				
MSCI EAFE NR USD	—	**10.42**	**1.30**	**5.39**	—	—				
S&P 500 TR	—	**15.65**	**2.62**	**3.29**	—	—				
USTREAS T-Bill Auction Ave 3 Mon	—	**0.15**	**2.08**	**2.14**	—	—				

Return after Tax (%)	On Distribution					On Distribution and Sales of Shares			
	1Yr	5Yr	10Yr	Since Inception	Inception Date	1Yr	5Yr	10Yr	Since Inception
Invesco Van Kampen Equity and Income A (USD)	4.28	2.14	4.18	6.37	08-03-1960	3.18	2.20	3.99	6.27

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Portfolio Snapshot

Portfolio Value
$61,860

Benchmark
S&P 500 TR (USD)

Illustration Returns

Total 1 holding as of 03-31-2011	Symbol	Type	Holdings Date	% of Assets	Holding Value $	7-day Yield	1 Yr Ret %	3 Yr Ret %	5 Yr Ret %	10 Yr Ret %
Invesco Van Kampen Equity and Income A (USD)	ACEIX	MF	12-2010	100.00	61,860	—	9.52	4.25	3.01	4.41

Performance Disclosure

The performance data quoted represents past performance and does not guarantee future results. The investment return and principal value of an investment will fluctuate thus an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than return data quoted herein. For performance data current to the most recent month-end, please visit http://advisor.morningstar.com/familyinfo.asp.

See Disclosure Page for Standardized Returns.

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Hypothetical Report Disclosure Statement

General
This is an illustration of a simulated investment and assumes the portfolio holding(s) were purchased on the first day of the period indicated. Sales and tax charges, including those required in the event of transfers between assets, are taken into account at the rates shown and may be higher or lower than what an investor would have actually paid had the investments been purchased then or now. The performance data represents past performance and is not indicative of future results. Principal value and investment returns will fluctuate, and an investor's shares/units when redeemed may be worth more or less than the original investment.

The underlying holdings of the portfolio are not federally or FDIC-insured and are not deposits or obligations of, or guaranteed by, any financial institution. Investment in securities involve investment risks including possible loss of principal and fluctuation in value.

The investment returns do not reflect active trading and do not necessarily reflect the results that might have been achieved by active management of the account. The investment returns of other clients of the adviser may differ materially from the investment portrayed.

The information contained in this report is from the most recent information available to Morningstar as of the release date, and may or may not be an accurate reflection of the current composition of the securities included in the portfolio. There is no assurance that the weightings, composition and ratios will remain the same.

Pre-inception Returns
The analysis in this report may be based, in part, on adjusted historical returns for periods prior to the fund's actual inception. These calculated returns reflect the historical performance of the oldest share class of the fund, adjusted to reflect the fees and expenses of this share class. These fees and expenses are referenced in the report's Charges and Fees section.

When pre-inception data are presented in the report, the header at the top of the report will indicate this.

While the inclusion of pre-inception data provides valuable insight into the probable long-term behavior of newer share classes of a fund, investors should be aware that an adjusted historical return can only provide an approximation of that behavior. For example, the fee structures between a retail share class will vary from that of an institutional share class, as retail shares tend to have higher operating expenses and sales charges. These adjusted historical returns are not actual returns. Calculation methodologies utilized by Morningstar may differ from those applied by other entities, including the fund itself.

The investment returns do not necessarily reflect the deduction of all investment advisory fees. Client investment returns may be reduced if additional fees are incurred.

Performance for closed-end and exchange-traded funds is calculated based on the fund's end of the day market prices as reported by the New York Stock Exchange. Separate account performance is based on the mean experience of an investor in the account.

This illustration may reflect the results of systematic investments and/or withdrawals. Systematic investment does not ensure a profit, nor does it protect the investor against a loss in a declining market. Also, systematic investing will not keep an investor from losing money if shares are sold when the market is down.

Investment Summary Graph
The investment summary graph plots the approximate market value of the security or portfolio over the investing horizon. It may also include the total investment assumed in the illustration and/or a benchmark. Total investment includes dollar inflows and outflows, including inflows representing noted taxes and annual fees paid out of pocket. If a benchmark index is included on a graph, it assumes a similar pattern of investment/withdrawal as for the security or portfolio. Taxes and transaction costs are aslo applied to the benchmark index. Note that direct investment in an index is not possible. Indexes are unmanaged portfolios representing different asset classes, with varying levels of associated risk. The benchmark index included in the graph may or may not represent an appropriate or accurate comparison with the security or portfolio illustrated.

Standardized Returns
For ETFs, the standardized returns reflect performance, both at market price and NAV price, without adjusting for the effects of taxation or brokers commissions. These returns are adjusted to reflect all ongoing ETF expenses and assume reinvestment of dividends and capital gains. If adjusted, the effects of taxation would reduce the performance quoted.

For HOLDs, the standardized returns reflect performance at market price, without adjusting for the effects of taxation or brokers commissions. These returns are adjusted to reflect all ongoing expenses and assume reinvestment of dividends and capital gains. If adjusted, the effects of taxation would reduce the performaance quoted.

For money market mutual funds, standardized return is total return adjusted for sales charges and reflects all ongoing fund expenses. Current 7-day yield more closely reflects the current earnings of the money market fund than the total return quotation.

For mutual funds, standardized return is total return adjusted for sales charges and reflects all ongoing fund expenses. Following this disclosure statement, standardized returns for each portfolio holding are shown.

For VA subaccounts, standardized return is total return based on its inception date within the separate account and is adjusted to reflect recurring and non-recurring charges such as surrender fees, contract charges, maximum front-end load, maximum deferred load, maximum M&E risk charge, administration fees, and actual ongoing fund-level expenses.

For VL subaccounts, standardized return is total return based on its inception date within the separate account and is adjusted to reflect recurring and non-recurring charges such as surrender fees, contract charges, maximum front-end load, maximum deferred load, maximum M&E risk charge, administration fees, and actual ongoing fund-level expenses. For VLs, additional fees specific to a VL policy such as transfer fees and cost of insurance fees, which are based on specific characteristics on an individual, are not included. If VL fees were included in the return calculations, the performance would have been significantly lower. An investor should contact their financial advisor and ask for a personalized performance illustration, either hypothetical or historical, which reflects all applicable fees and charges including the cost of insurance. Please review the prospectus and SAI for more detailed information.

Definitions of Report Terms
*Annual Fee Paid:*Your advisor was able to specify whether annual fees, if any, should be assumed paid out of pocket or from selling shares of securities held in

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the illustration.

*Average Annualized Return:*Average annualized money-weighted return (internal rate of return). In illustrations with time periods less than one year, this figure is not annualized.

*Capital Gains (Individual Report):*Percentage of the total market value of the holding that is attributable to the reinvestment of capital gains distributions.

*Charges & Fees (Investment Detail):*The sum of fees charged to the investor during the period, including front or deferred loads, VA charges, and annual fees.

*Cumulative Return:*The total money-weighted return of the investment over the entire time period of the illustration.

*Distribution/Withdrl:*The sum of distributions not reinvested, plus any cash withdrawals during the period.

*Income (Individual Report):*The percentage of the total market value of the holding that is attributable to the reinvestment of income or dividend distributions.

*Liquidate:*Indicates whether the advisor chose that the holding be liquidated on the end date.

*Median (Comparison Report):*The total money-weighted return (internal rate of return) of the median security in the illustration for the calendar year indicated.

*New investment:*Any new cash invested during the period.

*Principal (Individual Reports):*The percentage of the total market value of the holding that is attributable to new investment.

*Rebalance(Planning Assumptions):*Indicates whether rebalancing is used, and its frequency. "No" indicates no rebalancing. Options for rebalancing frequency are monthly, quarterly, semi-annually, and annually.

*Rebalance(Investment Assumptions):*Percentage of total asset allocation to be maintained in this holding through rebalancing.

*Securities Returns(Comparison Report):*The total money-weighted return (internal rate of return) for the holding in the calendar year indicated, taking into account cash flows, charges, and fees.

*Subsequent Invest/Withdwl:*The amount, type, and frequency of subsequent investments or withdrawals from the holding. Withdrawals are represented by a negative number. Systematic investments and withdrawals may be made monthly, quarterly, semi-annually, or annually. If "Custom, " a custom schedule of investments or withdrawals was used.

*Taxes Due:*The total amount of taxes due from the investor, determined by applying specified tax rates to distributions and sale of shares during each calendar year.

*Taxes Paid:*Your advisor was able to specify whether taxes, if any, should be assumed paid out of pocket or from selling shares of securities held in the illustration.

*Net Dollars Invested:*The total out-of-pocket expense for the investor. Includes new investment, annual fees paid to advisor, and taxes due. This figure is net of withdrawals, including liquidation.

*Total Reinvest:*The sum of distributions reinvested during the period.

*Total Return %:*The total money-weighted return (internal rate of return) on investments for the period.

Portfolio Snapshot Report Disclosure Statement

General

Investment portfolios illustrated in this report can be scheduled or unscheduled. With an unscheduled portfolio, the user inputs only the portfolio holdings and their current allocations. Morningstar calculates returns using the given allocations assuming monthly rebalancing. Taxes, loads, and sales charges are not taken into account.

With "scheduled" portfolios, users input the date and amount for all investments into and withdrawals from each holding, as well as tax rates, loads, and other factors that would have affected portfolio performance. A hypothetical illustration is one type of scheduled portfolio.

Both scheduled and unscheduled portfolios are theoretical, for illustrative purposes only, and are not reflective of an investors actual experience. For both scheduled and unscheduled portfolios, the performance data given represents past performance and should not be considered indicative of future results. Principal value and investment return of stocks, mutual funds, and variable annuity/life products will fluctuate, and an investor's shares/units when redeemed will be worth more or less than the original investment. Stocks, mutual funds, and variable annuity/life products are not FDIC-insured, may lose value, and are not guaranteed by a bank or other financial institution. Portfolio statistics change over time.

Used as supplemental sales literature, the Portfolio Snapshot report must be preceded or accompanied by the fund/policy's current prospectus or equivalent. In all cases, this disclosure statement should accompany the Portfolio Snapshot report. Morningstar is not itself a FINRA-member firm.

The underlying holdings of the portfolio are not federally or FDIC-insured and are not deposits or obligations of, or guaranteed by any financial institution. Investment in securities involve investment risks including possible loss of principal and fluctuation in value.

The information contained in this report is from the most recent information available to Morningstar as of the release date, and may or may not be an accurate reflection of the current composition of the securities included in the portfolio. There is no assurance that the weightings, composition and ratios will remain the same.

Items to Note Regarding Certain Underlying Securities

A closed-end fund is an investment company, which typically makes one public offering of a fixed number of shares. Thereafter, shares are traded on a secondary market such as the New York Stock Exchange. As a result, the secondary market price may be higher or lower than the closed-end fund's net asset value (NAV). If these shares trade at a price above their NAV, they are said to be trading at a premium. Conversely, if they are trading at a price below their NAV, they are said to be trading at a discount.

An exchange-traded fund (ETF) is an investment company that typically has an

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investment objective of striving to achieve a similar return as a particular market index. The ETF will invest in either all or a representative sample of the securities included in the index it is seeking to imitate. Like closed-end funds, ETFs can be traded on a secondary market and thus have a market price that may be higher or lower than its net asset value. If these shares trade at a price above their NAV, they are said to be trading at a premium. Conversely, if they are trading at a price below their NAV, they are said to be trading at a discount.

A money market fund is an investment company that invests in commercial paper, banker's acceptances, repurchase agreements, government securities, certificates of deposit and other highly liquid securities, and pays money market rates of interest. Money markets are not FDIC-insured, may lose money, and are not guaranteed by a bank or other financial institution. Although the money market seeks to preserve a stable per share value (i.e. $1.00 per share), it is possible to lose money by investment in the fund.

Unit investment trust (UIT) is an investment company organized under a trust agreement between a sponsor and trustee. UITs typically purchase a fixed portfolio of securities and then sell units in the trust to investors. The major difference between a UIT and a mutual fund is that a mutual fund is actively managed, while a UIT is not. On a periodic basis, UITs usually distribute to the unit holder their pro rata share of the trust's net investment income and net realized capital gains, if any. If the trust is one that invests only in tax-free securities, then the income from the trust is also tax-free. UITs generally make one public offering of a fixed number of units. However, in some cases, the sponsor will maintain a secondary market that allows existing unit holders to sell their units and for new investors to buy units.

Variable annuities are tax-deferred investments structured to convert a sum of money into a series of payments over time. Variable annuity policies have limitations and are not viewed as short-term liquid investments. An insurance company's fulfillment of a commitment to pay a minimum death benefit, a schedule of payments, a fixed investment account guaranteed by the insurance company, or another form of guarantee depends on the claims-paying ability of the issuing insurance company. Any such guarantee does not affect or apply to the investment return or principal value of the separate account and its subaccount. The financial ratings quoted for an insurance company do not apply to the separate account and its subaccount. If the variable annuity subaccount is invested in a money-market fund, although it seeks to preserve a stable per share value (i.e. $1.00 per share), it is possible to lose money by investment in the fund.

Variable life insurance is a cash-value life insurance that has a variable cashvalue and/or death benefit depending on the investment performance of the subaccount into which premium payments are invested. Unlike traditional life insurance, variable life insurance has inherent risks associated with it, including market volatility, and is not viewed as a short-term liquid investment. For more information on a variable life product, including each subaccount, please read the current prospectus. Please note, the financial ratings noted on the report are quoted for an insurance company and do not apply to the separate account and its subaccount. If the variable life subaccount is invested in a money-market fund, although it seeks to preserve a stable per share value (i.e. $1.00 per share), it is possible to lose money by investment in the fund.

Pre-inception Returns

The analysis in this report may be based, in part, on adjusted historical returns for periods prior to the fund's actual inception. These calculated returns reflect the historical performance of the oldest share class of the fund, adjusted to reflect the fees and expenses of this share class. These fees and expenses are referenced in the report's list of holdings and again on the standardized returns page. When pre-inception data is presented in the report, the header at the top of the report will indicate this and the affected data elements will be displayed in italics.

While the inclusion of pre-inception data provides valuable insight into the probable long-term behavior of newer share classes of a fund, investors should be aware that an adjusted historical return can only provide an approximation of that behavior. For example, the fee structures between a retail share class will vary from that of an institutional share class, as retail shares tend to have higher operating expenses and sales charges. These adjusted historical returns are not actual returns. Calculation methodologies utilized by Morningstar may differ from those applied by other entities, including the fund itself.

Scheduled Portfolio Trailing Returns

Scheduled Portfolios are customized by the user to account for loads, taxes, cash flows and specific investment dates. Scheduled portfolios use the portfolio's investment history to calculate final market values and returns. For scheduled portfolios, both individual holdings and portfolio returns are internal-rate-of-return calculations that reflect the timing and dollar size of all purchases and sales. For stocks and mutual funds, sales charges and tax rates are taken into account as specified by the user (except in the pre-tax returns, which reflect the impact of sales charges but not taxes). Note that in some scheduled portfolio illustrations, dividends and capital gains distributions, if applicable, are reinvested at the end of the month in which they are made at the month-end closing price. This can cause discrepancies between calculated returns and actual investor experience.

Scheduled Portfolio Returns-Based Performance Data

For scheduled portfolios, the monthly returns used to calculate alphas, betas, R-squareds, standard deviations, Sharpe ratios and best/worst time-period data are internal rates of return.

Important VA Disclosure for Scheduled Portfolios

For variable annuity products, policy level charges (other than front-end loads, if input by the advisor) are not factored into returns. When withdrawals and liquidations are made, increases in value over the purchase price are taxed at the capital gains rate that currently is in effect. This is not reflective of the actual tax treatment for these products, which requires the entire withdrawal to be taxed at the income tax rate. If adjusted for sales charges and the effects of taxation, the subaccount returns would be reduced.

Scheduled Portfolio Investment Activity Graph

The historic portfolio values that are graphed are those used to track theportfolio when calculating returns.

Unscheduled Portfolio Returns

Monthly total returns for unscheduled portfolios are calculated by applying theending period holding weightings supplied by the user to an individual holding's monthly returns. When monthly returns are unavailable for a holding (ie. Due to it not being in existence during the historical period being reported), the remaining portfolio holdings are re-weighted to maintain consistent proportions. Inception dates are listed in the Disclosure for Standardized and Tax Adjusted Returns. Trailing returns are calculated by geometrically linking these weighted-average monthly returns. Unscheduled portfolio returns thus assume monthly rebalancing. Returns for individual holdings are simple time-weighted trailing returns. Neither portfolio returns nor holding returns are adjusted for loads or taxes, and if adjusted for, would reduce the returns stated. The returns stated assume the reinvestment of dividends and capital gains. Mutual fund returns include all ongoing fund expenses. VA/VL returns reflect subaccount level fund expenses, including M&E expenses, administration fees, and actual ongoing fund level expenses.

Unscheduled Portfolio Investment Activity Graph

The historic performance data graphed is extrapolated from the ending portfolio

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value based on monthly returns.

Benchmark Returns
Benchmark returns may or may not be adjusted to reflect ongoing expenses such as sales charges. An investment's portfolio may differ significantly from the securities in the benchmark.

Returns for custom benchmarks are calculated by applying user-supplied weightings to each benchmark's returns every month. Trailing returns are calculated by geometrically linking these weighted-average monthly returns. Custom benchmark returns thus assume monthly rebalancing.

Standardized Returns
For mutual funds, standardized return is total return adjusted for sales charges, and reflects all ongoing fund expenses. Following this disclosure statement, standardized returns for each portfolio holding are shown.

For money market mutual funds, standardized return is total return adjusted for sales charges and reflects all ongoing fund expenses. Current 7-day yield more closely reflects the current earnings of the money market fund than the total return quotation.

For VA subaccounts, standardized return is total return based on its inception date within the separate account and is adjusted to reflect recurring and non-recurring charges such as surrender fees, contract charges, maximum front-end load, maximum deferred load, maximum M&E risk charge, administration fees and actual ongoing fund-level expenses.

For ETFs, the standardized returns reflect performance, both at market priceand NAV price, without adjusting for the effects of taxation or brokers commissions. These returns are adjusted to reflect all ongoing ETF expenses and assume reinvestment of dividends and capital gains. If adjusted, the effects of taxation would reduce the performance quoted.

The charges and expenses used in the standardized returns are obtained from the most recent prospectus and/or shareholder report available to Morningstar. For mutual funds and VAs, all dividends and capital gains are assumed to be reinvested. For stocks, stock acquired via divestitures is assumed to be liquidated and reinvested in the original holding.

Non-Standardized Returns
For mutual funds, total return is not adjusted for sales charges and reflects all ongoing fund expenses for various time periods. These returns assume reinvestment of dividends and capital gains. If adjusted for sales charges and the effects of taxation, the mutual fund returns would be reduced. Please note these returns can include pre-inception data and if included, this data will be represented in italics.

For money market funds, total return is not adjusted for sales charges and reflects all ongoing fund expenses for various time periods. These returns assume reinvestment of dividends and capital gains. If adjusted for sales charges and the effects of taxation, the money market returns would be reduced.

For VA and VL subaccounts, non-standardized returns illustrate performance that is adjusted to reflect recurring and non-recurring charges such as surrender fees, contract charges, maximum front-end load, maximum deferred load, maximum M&E risk charge, administrative fees and underlying fund-level expenses for various time periods. Non-Standardized performance returns assume reinvestment of dividends and capital gains. If adjusted for the effects of taxation, the subaccount returns would be significantly reduced. Please note these returns can include pre-inception data and if included, this data will be represented in italics.

Investment Advisory Fees
The investment(s) returns do not necessarily reflect the deduction of all investment advisory fees. Client investment returns will be reduced if additional advisory fees are incurred such as deferred loads, redemption fees, wrap fees, or other account charges.

Investment Style
The Morningstar Style Box reveals a fund's investment style as of the date noted on this report.

For equity funds the vertical axis shows the market capitalization of the long stocks owned and the horizontal axis shows investment style (value, blend, or growth).

For fixed-income funds, the vertical axis shows the credit quality of the long bonds owned and the horizontal axis shows interest rate sensitivity as measured by a bond's effective duration.

Morningstar seeks credit rating information from fund companies on a periodic basis (e.g., quarterly). In compiling credit rating information, Morningstar instructs fund companies to only use ratings that have been assigned by a Nationally Recognized Statistical Rating Organization (NRSRO). If two NRSROs have rated a security, fund companies are to report the lowest rating; if three or more NRSROs have rated the same security differently, fund companies are to report the rating that is in the middle. For example, if NRSRO X rates a security AA-, NRSRO Y rates the same security an A and NRSRO Z rates it a BBB+, the fund company should use the credit rating of 'A' in its reporting to Morningstar. PLEASE NOTE: Morningstar, Inc. is not itself an NRSRO nor does it issue a credit rating on the fund. An NRSRO rating on a fixed-income security can change from time-to-time.

For credit quality, Morningstar combines the credit rating information provided by the fund companies with an average default rate calculation to come up with a weighted-average credit quality. The weighted-average credit quality is currently a letter that roughly corresponds to the scale used by a leading NRSRO. Bond funds are assigned a style box placement of "low", "medium", or "high" based on their average credit quality. Funds with a low credit quality are those whose weighted-average credit quality is determined to be less than "BBB-"; medium are those less than "AA-", but greater or equal to "BBB-"; and high are those with a weighted-average credit quality of "AA-" or higher. When classifying a bond portfolio, Morningstar first maps the NRSRO credit ratings of the underlying holdings to their respective default rates (as determined by Morningstar's analysis of actual historical default rates). Morningstar then averages these default rates to determine the average default rate for the entire bond fund. Finally, Morningstar maps this average default rate to its corresponding credit rating along a convex curve.

For interest-rate sensitivity, Morningstar obtains from fund companies the average effective duration. Generally, Morningstar classifies a fixed-income fund's interest-rate sensitivity based on the effective duration of the Morningstar Core Bond Index (MCBI), which is currently three years. The classification of Limited will be assigned to those funds whose average effective duration is between 25% to 75% of MCBI's average effective duration; funds whose average effective duration is between 75% to 125% of the MCBI will be classified as Moderate; and those that are at 125% or greater of the average effective duration of the MCBI will be classified as Extensive.

For municipal bond funds, Morningstar also obtains from fund companies the average effective duration. In these cases static breakpoints are utilized. These breakpoints are as follows: (i) Limited: 4.5 years or less; (ii) Moderate: more

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than 4.5 years but less than 7 years; and (iii) Extensive: more than 7 years. In addition, for non-US taxable and non-US domiciled fixed income funds static duration breakpoints are used: (i) Limited: less than or equal to 3.5 years; (ii) Moderate: greater than 3.5 and less than equal to 6 years; (iii) Extensive: greater than 6 years.

Risk and Return

Standard deviation is a statistical measure of the volatility of a portfolio's returns around its mean.

Mean represents the annualized geometric return for the period shown.

Sharpe ratio uses a portfolio's standard deviation and total return to determine reward per unit of risk.

Alpha measures the difference between a portfolio's actual returns and its expected performance, given its beta and the actual returns of the benchmark index. Alpha is often seen as a measurement of the value added or subtracted by a portfolio's manager.

Beta is a measure of the degree of change in value one can expect in a portfolio given a change in value in a benchmark index. A portfolio with a beta greater than one is generally more volatile than its benchmark index, and a portfolio with a beta of less than one is generally less volatile than its benchmark index.

R-squared reflects the percentage of a portfolio's movements that is explained by movements in its benchmark index, showing the degree of correlation between the portfolio and a benchmark. This figure is also helpful in assessing how likely it is that alpha and beta are statistically significant.

Fundamental Analysis

The below referenced data elements are a weighted average of the equity holdings in the portfolio.

The median market capitalization of a subaccount's equity portfolio gives you a measure of the size of the companies in which the subaccount invests.

The Price/Cash Flow ratio is a weighted average of the price/cash-flow ratios of the stocks in a subaccounts portfolio. Price/cash-flow shows the ability of a business to generate cash and acts as a gauge of liquidity and solvency.

The Price/Book ratio is a weighted average of the price/book ratios of all the stocks in the underlying fund's portfolio. The P/B ratio of a company is calculated by dividing the market price of its stock by the company's per-share book value. Stocks with negative book values are excluded from this calculation.

The Price/Earnings ratio is calculated by dividing the market value of the equity assets by the trailing 12 month earnings. The 12 month earnings value comes from multiplying the number of shares and the adjusted trailing 12 months' earnings per share for each equity asset and summing the results.

The Price/Sales ratio is a weighted average of the price/sales ratios of the stocks in the underlying fund's portfolio. The P/S ratio of a stock is calculated by dividing the current price of the stock by its trailing 12 months' revenues per share. In computing the average, Morningstar weights each portfolio holding by the percentage of equity assets it represents.

The return on assets (ROA) is the percentage a company earns on its assets in a given year. The calculation is net income divided by end-of-year total assets, multiplied by 100.

The Return on Equity (ROE) is the percentage a company earns on its shareholders' equity in a given year. The calculation is net income divided by end-of-year net worth, multiplied by 100.

Market Maturity shows the percentage of a holding's common stocks that are domiciled in developed and emerging markets.

The data elements listed below are a weighted average of the fixed income holdings in the portfolio.

Average maturity is used for holdings in the taxable fixed-income category. This is a weighted average of all the maturities of the bonds in a portfolio, computed by weighting each maturity date by the market value of the security.

Credit quality breakdowns are shown for corporate-bond holdings and depict the quality of bonds in the underlying portfolio. The report shows the percentage of fixed-income securities that fall within each credit quality rating as assigned by an NRSRO. Bonds not rated by an NRSRO are included in the not rated (NR) category.

Debt as a percentage of capital is calculated by dividing long-term debt by total capitalization (the sum of common equity plus preferred equity plus long-term debt). This figure is not provided for financial companies.

Duration is a time measure of a bonds interest-rate sensitivity.

Net Margin is a measure of profitability. It is equal to annual net income divided by revenues from the same period for the past five fiscal years, multiplied by 100.

Type Weightings divide the stocks in a given holding's portfolio into eight type designations each of which defines a broad category of investment characteristics. Not all stocks in a given holding's portfolio are assigned a type. These stocks are grouped under NA.

The data elements listed below are a weighted average of the total holdings in the portfolio.

The average expense ratio is the percentage of assets deducted each year for operating expenses, management fees, and all other asset-based costs incurred by the fund, excluding brokerage fees. Please note for mutual funds, variable annuities/life, ETF and closed-end funds we use the gross prospectus ratio as provided in the prospectus. Separate accounts and stocks are excluded from the average expense ratio.

Potential capital gains exposure is the percentage of a holdings total assets that represent capital appreciation.

Investment Risks

International/Emerging Market Equities: Investing in international securities involve special additional risks. These risks include, but are not limited to, currency risk, political risk, and risk associated with varying accounting standards. Investing in emerging markets may accentuate these risks.

Sector Strategies: Portfolios that invest exclusively in one sector or industry involve additional risks. The lack of industry diversification subjects the investor to increased industry-specific risks.

Non-Diversified Strategies: Portfolios that invest a significant percentage of

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assets in a single issuer involve additional risks, including share price fluctuations, because of the increased concentration of investments.

Small Cap Equities: Portfolios that invest in stocks of small companies involve additional risks. Smaller companies typically have a higher risk of failure, and are not as well established as larger blue-chip companies. Historically, smaller-company stocks have experienced a greater degree of market volatility that the overall market average.

Mid Cap Equities: Portfolios that invest in companies with market capitalization below $10 billion involve additional risks. The securities of these companies may be more volatile and less liquid than the securities of larger companies.

High-Yield Bonds: Portfolios that invest in lower-rated debt securities (commonly referred as junk bonds) involve additional risks because of the lower credit quality of the securities in the portfolio. The investor should be aware of the possible higher level of volatility, and increased risk of default.

Tax-Free Municipal Bonds: The investor should note that the income from tax-free municipal bond funds may be subject to state and local taxation and the Alternative Minimum Tax.

Bonds: Bonds are subject to interest rate risk. As the prevailing level of bond interest rates rise, the value of bonds already held in a portfolio decline. Portfolios that hold bonds are subject to declines and increases in value due to general changes in interest rates.

HOLDRs: The investor should note that these are narrow industry-focused products that, if the industry is hit by hard times, will lack diversification and possible loss of investment would be likely. These securities can trade at a discount to market price, ownership is of a fractional share interest, the underlying investments may not be representative of the particular industry, the HOLDR might be delisted from the AMEX if the number of underlying companies drops below nine, and the investor may experience trading halts.

Hedge Funds: The investor should note that hedge fund investing involves specialized risks that are dependent upon the type of strategies undertaken by the manager. This can include distressed or event-driven strategies, long/short strategies, using arbitrage (exploiting price inefficiencies), international investing, and use of leverage, options and/or derivatives. Although the goal of hedge fund managers may be to reduce volatility and produce positive absolute return under a variety of market conditions, hedge funds may involve a high degree of risk and are suitable only for investors of substantial financial means who could bear the entire loss of their investment.

Bank Loan/Senior Debt: Bank loans and senior loans are impacted by the risks associated with fixed income in general, including interest rate risk and default risk. They are often non-investment grade; therefore, the risk of default is high. These securities are also relatively illiquid. Managed products that invest in bank loans/senior debt are often highly leveraged, producing a high risk of return volatility.

Short Positions: When a short position moves in an unfavorable way, the losses are theoretically unlimited. The broker may demand more collateral and a manager might have to close out a short position at an inopportune time to limit further losses.

Long-Short: Due to the strategies used by long-short funds, which may include but are not limited to leverage, short selling, short-term trading, and investing in derivatives, these funds may have greater risk, volatility, and expenses than those focusing on traditional investment strategies.

Liquidity Risk: Closed-end fund, ETF, and HOLDR trading may be halted due to market conditions, impacting an investor's ability to sell a fund.

Market Price Risk: The market price of ETFs, HOLDRs, and closed-end funds traded on the secondary market is subject to the forces of supply and demand and thus independent of the NAV. This can result in the market price trading at a premium or discount to the NAV which will affect an investor's value.

Market Risk: The market prices of ETF's and HOLDRs can fluctuate as a result of several factors, such as security-specific factors or general investor sentiment. Therefore, investors should be aware of the prospect of market fluctuations and the impact it may have on the market price.

Target-Date Funds: Target-date funds typically invest in other mutual funds and are designed for investors who are planning to retire during the target date year. The fund's target date is the approximate date of when investors expect to begin withdrawing their money. Target-date fund's investment objective/strategy typically becomes more conservative over time primarily by reducing its allocation to equity mutual funds and increasing its allocations in fixed-income mutual funds. An investor's principal value in a target-date fund is not guaranteed at anytime, including at the fund's target date.

High double- and triple-digit returns were the result of extremely favorable market conditions, which may not continue to be the case. High returns for short time periods must not be a major factor when making investment decisions.

Benchmark Disclosure

BarCap US Agg Bond TR USD

This index is composed of the BarCap Government/Credit Index, the Mortgage-Backed Securities Index, and the Asset-Backed Securities Index. The returns we publish for the index are total returns, which include reinvestment of dividends.

MSCI EAFE NR USD

This Europe, Australasia, and Far East index is a market-capitalization-weighted index of 21 non-U.S., industrialized country indexes.

S&P 500 TR

A market capitalization-weighted index of 500 widely held stocks often used as a proxy for the stock market. TR (Total Return) indexes include daily reinvestment of dividends.

USTREAS T-Bill Auction Ave 3 Mon

Three-month T-bills are government-backed short-term investments considered to be risk-free and as good as cash because the maturity is only three months. Morningstar collects yields on the T-bill on a weekly basis from the Wall Street Journal.

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