

A vertical bar on the left side of the slide, featuring a barcode at the top, followed by a grey segment, a yellow segment, and a pink segment.

2009 EBRI Policy Forum, Washington, DC

A PLAN SPONSOR VIEW

JAY VIVIAN, CFA



Decumulation: Structural Background

- The Perfect Storm (2000-2002)



Decumulation: Structural Background

- The Perfect Storm (2000-2002)
- The Perfecter Storm (2007-20??)

S&P 500 Pension "Fundedness", 2007-2008

More Than \$1 Trillion in S&P Pension Fundedness Lost In 16 Months
\$750 Billion Lost in the Final 10 Weeks of 2008



Decumulation: Structural Background

- The Perfect Storm (2000-2002)
- The Perfect^{er} Storm (2007-20??)
- Risk: Fiduciary & Liability & Accounting & Reportin

...

Decumulation: Structural Background

- The Perfect Storm (2000-2002)
- The Perfect^{er} Storm (2007-20??)
- Risk: Fiduciary & Liability & Accounting & Reportin
- The “Demise” of the DB Plan ...

Decumulation: Structural Background

- The Perfect Storm (2000-2002)
- The Perfect^{er} Storm (2007-20??)
- Risk: Fiduciary & Liability & Accounting & Reporting
- The “Demise” of the DB Plan ...
- Corporate Functional Roles
 - Investment (Finance/Treasury)
 - Benefits (HR)
 - Legal



Decumulation: Ongoing Considerations

- Cost

*

Full Cycle Impact of Cost Deltas

1 basis point (0.01%) = 2 months of retirement income



age at hire ->	22					
age at retirement ->	58					
age at death ->	86					
initial salary ->	\$50,000					
pay growth during career (%) ->	3.5%					
pay deferred into 401(k) (%) ->	8%					
company match (%) ->	6%					
assets earn in 401(k) (%) ->	7.5%					
desired "CoLA" for withdrawals ->	2.5%					
asset management fee (%) ->		1.00%	1.01%	0.67%	0.68%	0.09%
						0.10%
terminal 401(k) balance ->	\$0		\$0		\$0	
retirement income as % of final pay ->	52.5%		58.2%		69.7%	
first year withdrawal (\$) ->	\$87,582		\$97,043		\$116,235	
final year withdrawal (\$) ->	\$170,591		\$189,021		\$226,403	
total payout, all years (undiscounted) ->	\$3,490,984		\$3,868,118		\$4,633,114	
terminal 401(k) balance ->		-\$26,990		-\$31,450		-\$41,189
"shortfall", in months ->		-1.9		-2.0		-2.2

Decumulation: Ongoing Considerations

- Cost *
- Asset Allocation *

Decumulation: Ongoing Considerations

- Cost *
- Asset Allocation *
- Asset Location *

Decumulation: Ongoing Considerations

- Cost *
- Asset Allocation *
- Asset Location *
- Annuitization

Decumulation: Ongoing Considerations

- Cost *
- Asset Allocation *
- Asset Location *
- Annuitization
- Disability and/or Longevity Insurance *?

Decumulation: Ongoing Considerations

- Cost *
- Asset Allocation *
- Asset Location *
- Annuitization
- Disability and/or Longevity Insurance *?
- Financial Planning *

Decumulation: Ongoing Considerations

- Cost *
- Asset Allocation *
- Asset Location *
- Annuitization
- Disability and/or Longevity Insurance *?
- Financial Planning *
- Target Date Fund Design *

Decumulation: Ongoing Considerations

- Cost *
- Asset Allocation *
- Asset Location *
- Annuitization
- Disability and/or Longevity Insurance *?
- Financial Planning *
- Target Date Fund Design *
- Re-enrollment? *