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??)

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 Perfecter Storm (2007-20??)
- Risk: Fiduciary & Liability & Accounting & Reporting...

...
Decumulation: Structural Background

- The Perfect Storm (2000-2002)
- The Perfecter Storm (2007-20??)
- Risk: Fiduciary & Liability & Accounting & Reporting
- The “Demise” of the DB Plan
Decumulation: Structural Background

- The Perfect Storm (2000-2002)
- The Perfecter 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

<table>
<thead>
<tr>
<th>Event</th>
<th>1.00%</th>
<th>1.01%</th>
<th>0.67%</th>
<th>0.68%</th>
<th>0.09%</th>
<th>0.10%</th>
</tr>
</thead>
<tbody>
<tr>
<td>age at hire</td>
<td>22</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>age at retirement</td>
<td>58</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>age at death</td>
<td>86</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>initial salary</td>
<td>$50,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>pay growth during career (%)</td>
<td>3.5%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>pay deferred into 401(k) (%)</td>
<td>8%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>company match (%)</td>
<td>6%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>assets earn in 401(k) (%)</td>
<td>7.5%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>desired &quot;CoLA&quot; for withdrawals</td>
<td>2.5%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>asset management fee (%)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

| Event                                      |        |        |        |        |        |
|--------------------------------------------|--------|--------|--------|--------|
| 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| $220,403|        |
| total payout, all years (undiscounted)     | $3,490,984| $3,868,118| $4,633,114|        |
| terminal 401(k) balance                   |        |        |        |        |
| "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?