



EBRI Policy Forum #64: Decumulation/Retirement Income in DC Plans

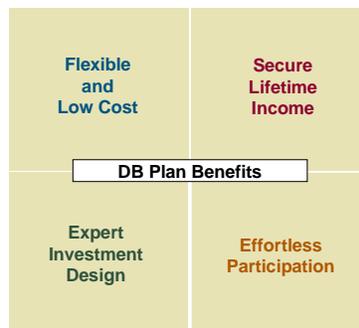
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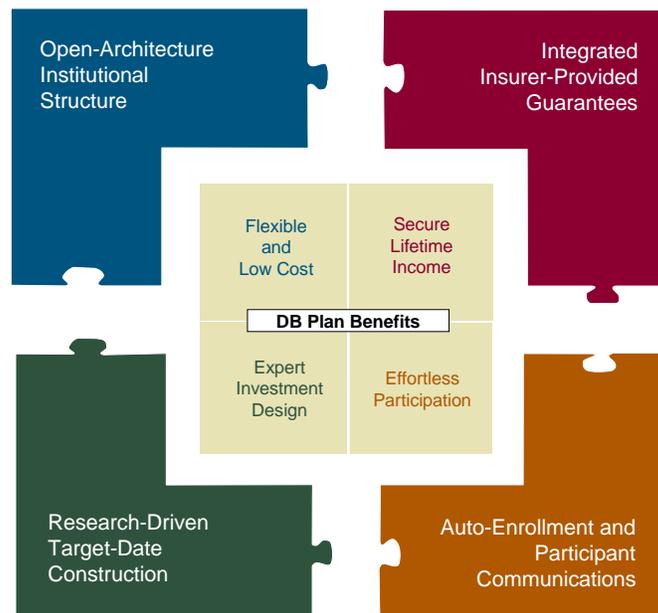
Retirement Income In DC Plans: A Key Question

Is there a way to bring DB plan benefits ...



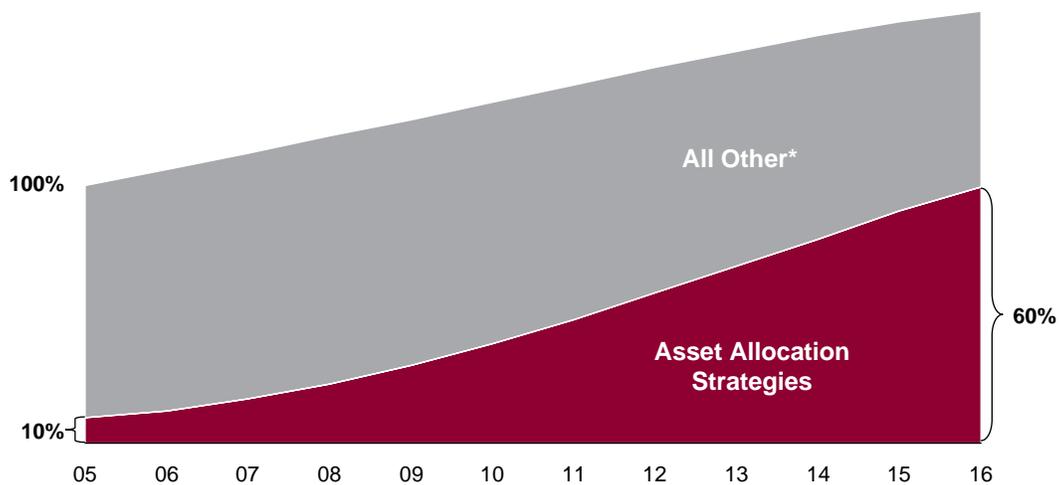
... to DC plans?

Our Philosophy: Design a DC Plan Around the Best Attributes of a DB Plan



Target-Date Fund: Most Important Decision for DC Plan Sponsors

Expected Assets in Defined Contribution Savings Plans
Indexed to Total Assets in 2005



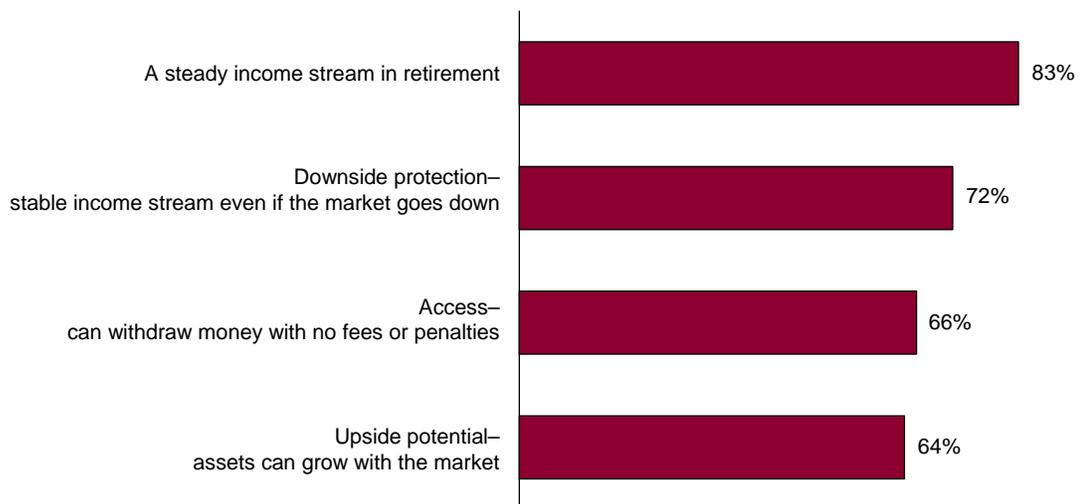
*Includes company stock, stable value or money markets and core standalone options

Assumes all new employees are defaulted into an asset-allocation default option such as a target-date retirement portfolio, and that 80% of these employees stay with it, 10% annual turnover in employees, and 10% annual shift of other employees' assets into the asset allocation portfolio.

Source: Data from Cerulli Associates and Hewitt Associates, modeled by AllianceBernstein

What Do Older DC Participants Want? Secure Income with Control

AllianceBernstein Survey of DC Participants (50 years or older)*
Important Benefits



*Survey of 500 401(k) plan participants (50 years or older)
Source: AllianceBernstein Research; July 2008

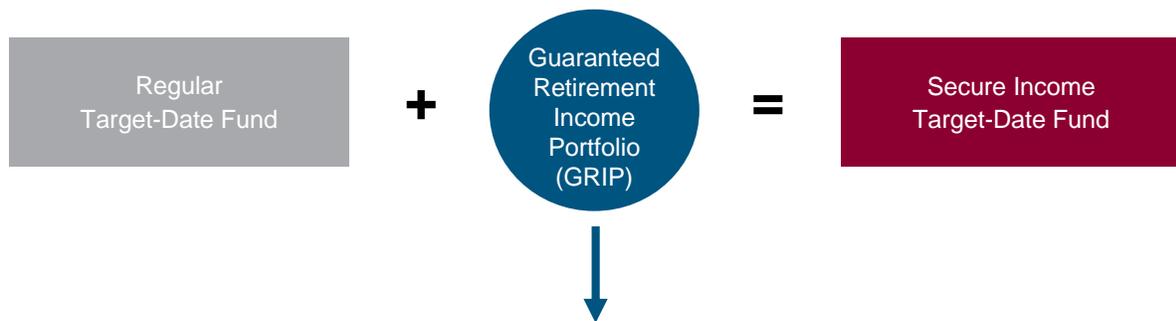
AllianceBernstein Approach: Secure Income Target-Date Funds

- Insurance guarantee is integrated into target-date fund (QDIA)
- Automatically secures lifetime income for participants from midlife through retirement
- Guaranteed income can increase with good markets but cannot fall in bad markets
- Participant has full liquidity and their beneficiary receives full account value
- Multi-insurer capability to diversify risk

Underlying Guarantee: A Guaranteed Lifetime Withdrawal Benefit (GLWB)

- Retirement income is based on balance in the DC account
- Insurance company guarantees annual withdrawal based on percentage of beginning balance
- Assets remain invested in a stock/bond portfolio
- Payments are withdrawn from participant's account
- If participant's account is depleted, insurer steps in to maintain payments
- If participant dies before account is depleted, remaining balance remitted to beneficiary's estate, not to insurer

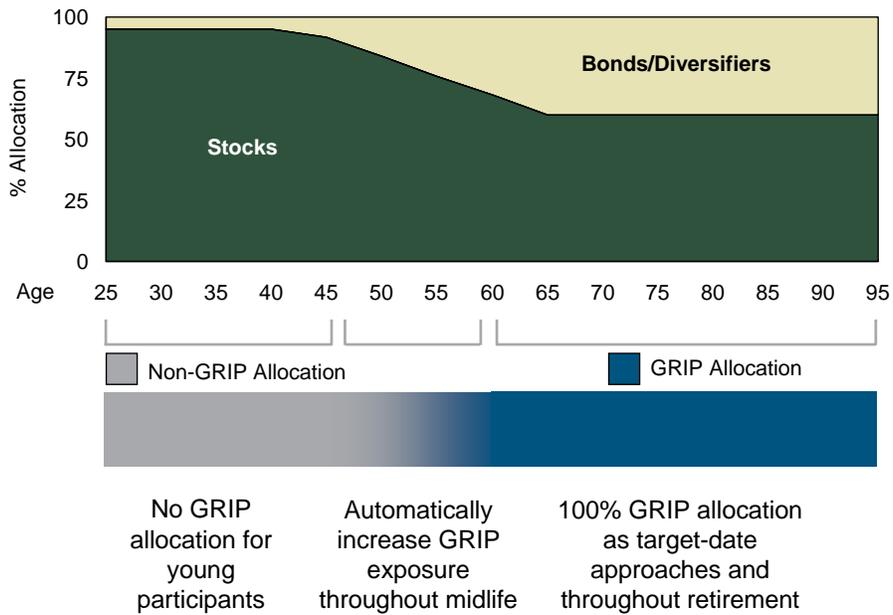
How Does the Guarantee Become Part of the Target-Date Fund?



- A GRIP is a 60/40 stock/bond portfolio that provides a guaranteed lifetime withdrawal benefit
- Treat each GRIP as an asset class, allocating to it based on a “guarantee glide path”
 - Not needed for young participants
 - Introduce the GRIP allocation in midlife
 - 100% allocation by age 60
- A target-date fund can allocate to more than one GRIP to provide multi-insurer capability

Secure Income Automatically Increases Over Time

Hypothetical Glide Path with Increasing Guarantee Allocation



Source: AllianceBernstein

Secure Income Target-Date Funds: From Engendering Panic to Security

Hypothetical Quarterly Statements for 55-year-old DC Plan Participant

Traditional Target-Date Fund

<u>Account Values</u>	
Opening Balance	\$400,000
Contributions	3,000
Market Return	(100,000)
Closing Account Balance	\$303,000



Secure Income Target-Date Fund

<u>Account Values</u>	
Opening Balance	\$400,000
Contributions	3,000
Market Return	(100,000)
Closing Account Balance	\$303,000
<u>Secure Annual Retirement Income*</u>	
Accumulated at Opening	\$15,000
Accumulated at Closing	15,150
Projected by Age 65	\$32,720

*Example assumes a 75% allocation to a Guaranteed Withdrawal Benefit at age 55 with a guaranteed income rate of 5% of invested capital. Age 65 projected income assumes \$12,000 annual plan contributions for 10 years, a yearly 5% net-of-fee investment return and a 100% allocation to a Guaranteed Withdrawal Benefit with a guaranteed payment rate of 5% of invested capital. Source: AllianceBernstein

Key Attributes of an Effective DC Retirement Income Solution

Meeting the Needs of Participants and Sponsors: Deliver the Best of DB, Preserve DC Practices

	Participants	Plan Sponsors	Secure Income Target-Date Funds
Secure Retirement Income for Life	●		✓
Growth Potential Throughout Life	●		✓
Full Liquidity	●		✓
Account Value Passes on to Beneficiary	●		✓
Simple	●	●	✓
QDIA (Integrated with Target-Date Fund)		●	✓
Adapts to Better Guarantee Rates		●	✓
Fully Transparent Pricing		●	✓
Multi-Insurer		●	✓

Source: AllianceBernstein

The DC Puzzle Solved

