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

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Head, AllianceBernstein Defined Contribution Investments
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

Open-Architecture Institutional Structure

Flexible and Low Cost

Integrated Insurer-Provided Guarantees

Secure Lifetime Income

Research-Driven Target-Date Construction

Expert Investment Design

Effortless Participation

Auto-Enrollment and Participant Communications

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

*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

- A steady income stream in retirement: 83%
- Downside protection—stable income stream even if the market goes down: 72%
- Access—can withdraw money with no fees or penalties: 66%
- Upside potential—assets can grow with the market: 64%

*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- Payments are withdrawn from participant’s account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

Source: AllianceBernstein
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

<table>
<thead>
<tr>
<th>Traditional Target-Date Fund</th>
<th>Secure Income Target-Date Fund</th>
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</thead>
<tbody>
<tr>
<td><strong>Account Values</strong></td>
<td><strong>Account Values</strong></td>
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<td>Opening Balance</td>
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<td>Contributions</td>
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<td>Market Return</td>
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<td><strong>Closing Account Balance</strong></td>
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<td>$303,000</td>
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**Secure Annual Retirement Income***

- 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

<table>
<thead>
<tr>
<th></th>
<th>Participants</th>
<th>Plan Sponsors</th>
<th>Secure Income Target-Date Funds</th>
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<tbody>
<tr>
<td>Secure Retirement Income for Life</td>
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<td>Growth Potential Throughout Life</td>
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<td>QDIA (Integrated with Target-Date Fund)</td>
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<td>Adapts to Better Guarantee Rates</td>
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Source: AllianceBernstein
The DC Puzzle Solved

Open Architecture
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DC Plan Benefits