Employee Benefit Research Institute
70th Policy Forum

Efficient portfolio approaches for accumulation
Chris Raham

10 May 2012
Agenda

► Middle market accumulators

► Foundational changes in thinking and approaches

► Positively affecting outcomes

► Closing remarks
Middle market accumulators

40% of newly retired couples will outlive their assets

47% of early boomers will outlive their assets

41% of early boomers will outlive their assets

70% of middle market households approaching retirement (<10 years) will outlive their assets

44% of Gen-X will outlive their assets

56% of Gen-X will outlive their assets

Source: Americans for Secure Retirement and Ernst & Young as of February 2009

Source: EBRI 2010 Retirement Readiness Ratings update, July 2010

Source: The National Retirement Risk Index: After the Crash, October 2009

...and their actions and questions to advisors are consistent

Have Done Extensive Planning for Retirement, by Income Level (pre-retirees, 50+, $100k+*)

- <$100k: 35%
- $100k-$199k: 42%
- $200k+: 65%

Source: Spectrem, 2010

Retirement planning comes too late driven by:
- Life events—job loss, health issues
- Imminent retirement (< 24 months)

Fewer questions on finances, but have to fix the basics first

Focused on government program impacts
Foundational changes in thinking

- There have been some foundational changes in enterprise thinking when it comes to helping clients with retirement planning and retirement income
  - Uncertainty is now part of the discussion and in many cases is reflected in client facing materials
  - Trade-offs are being illustrated and shared with clients

- Some risks remain largely addressed in concept only
  - Longevity and health care

Next generation approaches are addressing these gaps as part of foundational process transformation.
Foundational changes in approaches

- Customers want a long-lasting, trusted relationship as part of their retirement journey
- Customers want to know advisors understand their goals or desired outcomes
- Customers want to assist with navigating investment choices, tax implications and time-sensitive critical decisions
- Customers understand and believe adjustments will be necessary

Customers driving change

Customers want a long-lasting, trusted relationship as part of their retirement journey.
Customers want to know advisors understand their goals or desired outcomes.
Customers want to assistance navigating investment choices, tax implications and time-sensitive critical decisions.
Customers understand and believe adjustments will be necessary.

Client assets

Individual Accounts

Product Allocations

Household Holdings

Accumulation phase

Transition

Retirement Income

How to identify customer desires and provide value-add experiences to build trust?
How to build stronger relationships, gain referrals, consolidate assets and prevent leakage?
What is the most efficient way for our clients to meet their goals?
How and what do we monitor and adjust together?
How to best achieve family wealth and charitable objectives?

Common business challenges

- Clients want a long-lasting, trusted relationship as part of their retirement journey.
- Clients want to know advisors understand their goals or desired outcomes.
- Clients want to assistance navigating investment choices, tax implications and time-sensitive critical decisions.
- Clients understand and believe adjustments will be necessary.

Client age

Wealth transfer

Equity $140
Bond $140
Money Market $25
MSFT $50
Disney $30
REITs $60
$400
$350
$300
$250
$200
$150
$100
$50
$-
$50
$100
$150
$200
$250
$300
$350
$400
Account Registrations
Brokerage IRA 401k NQDC

Equity $140
Bond $140
Money Market $25
MSFT $50
Disney $30
REITs $60
Individual Accounts
$35
$205
$70
$50
$-
$100
$150
$200
$250
$300
$350
$400
Account Registrations
Brokerage IRA 401k

Equity $140
Bond $140
Money Market $25
MSFT $50
Disney $30
REITs $60
Individual Accounts
$35
$205
$70
$50
$-
$100
$150
$200
$250
$300
$350
$400
Account Registrations
Brokerage IRA 401k Roth
### Foundational changes in approaches

#### Two significant value enhancing trends

**Product Allocation Models**
- A starting allocation of investment, income and protection products that satisfy the desired outcomes of the individual
- Investment Products
  - Mutual funds
  - Dividend solutions
  - Bond and CD ladders
  - Market-linked securities
  - Separately Managed Accounts
- Income protection
  - Investment-linked or synthetics
  - Annuities and variations
- Insurance products
  - Life insurance
  - Long term care insurance

**UMH Tax Efficient Income Generation**
- Discovery
  - Inventory holdings
  - Determine income needs
  - Asset allocation strategy
  - Financial Plan
- Invest
- Manage
- Plan

**Investments**

**Insurance**

**Income**

**Advice**
Positively affecting outcomes
Effects of multi-product allocations

Allocation models for income

1. Significant number of interior solutions suggests only certain combinations of risk products should be considered

Allocation models for income and endowment

2. “Plateau” nature of the frontier suggests that addition of risk products is consistently valuable

Source: Ernst & Young calculations, 2008-2009
Positively affecting outcomes
Effects of addressing healthcare exposures

Source: Ernst & Young calculations, 2010
Positively affecting outcomes
Effects of starting earlier

Source: Ernst & Young calculations, 2010
Positively affecting outcomes
In-plan case analyses

Exhibit I: Average inflation adjusted replacement ratios (IARR)

<table>
<thead>
<tr>
<th>Measurement age</th>
<th>SWP</th>
<th>GLWB</th>
<th>FDIA</th>
<th>Average IARR</th>
</tr>
</thead>
<tbody>
<tr>
<td>NRA</td>
<td>21%</td>
<td>26%</td>
<td>41%</td>
<td></td>
</tr>
<tr>
<td>Life expectancy</td>
<td>21%</td>
<td>19%</td>
<td>22%</td>
<td></td>
</tr>
<tr>
<td>Age 95</td>
<td>15%</td>
<td>16%</td>
<td>16%</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Measurement age</th>
<th>SWP</th>
<th>GLWB</th>
<th>FDIA</th>
<th>Sum of real income</th>
</tr>
</thead>
<tbody>
<tr>
<td>NRA (1st year)</td>
<td>$15,705</td>
<td>$19,229</td>
<td>$30,688</td>
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</tr>
<tr>
<td>Life expectancy</td>
<td>$282,263</td>
<td>$302,646</td>
<td>$465,348</td>
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<tr>
<td>Age 95</td>
<td>$390,145</td>
<td>$434,018</td>
<td>$611,529</td>
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</tbody>
</table>

Exhibit IV: Distribution of IARRs at age 95

<table>
<thead>
<tr>
<th>IARR band</th>
<th>SWP</th>
<th>GLWB</th>
<th>FDIA</th>
</tr>
</thead>
<tbody>
<tr>
<td>IARR = 0%</td>
<td>28%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>0%&lt;IARR&lt;=15%</td>
<td>12%</td>
<td>60%</td>
<td>43%</td>
</tr>
<tr>
<td>15%&lt;IARR&lt;=30%</td>
<td>55%</td>
<td>31%</td>
<td>57%</td>
</tr>
<tr>
<td>IARR&gt;30%</td>
<td>6%</td>
<td>8%</td>
<td>0%</td>
</tr>
</tbody>
</table>

Source: Effective due diligence for guaranteed lifetime income options, Ernst & Young, 2011
Closing remarks

► Clients and participants will be positively affected

► Foundational changes in thinking and approaches are now occurring in the business environment

► Affordable access might be the most crucial of policy objectives

► Objectives and complexity for retail and institutional businesses will be different
Chris is a Senior Advisor in the Insurance Advisory Services practice of Ernst & Young, and has more than eighteen years of experience serving the financial services industry. Leader of the firm’s Retirement Income team, Mr. Raham is responsible for the delivery of product and actuarial services aimed at institutions seeking a competitive advantage in the retirement market.

Areas of expertise include strategic gap assessments of products and services, third-party product selection and management, accelerated product development services, retirement income implementation services, insurance-based pension risk management solutions, longevity transaction structures, product allocation optimization models.

A frequent contributor in both mainstream and industry publications, recent presentations include “Optimization in terms of a portfolio of products” at EBRI’s 64th Policy Forum, May 2009, “The Impact of Healthcare on Retirement”, at the Insured Retirement Institute’s November 2010 meeting, “Annuity market update” at LIMRA’s April 2011 meeting, and “Retirement Income Update” at National Underwriter’s Life Conference, November 2011.

Mr. Raham is a Fellow of the Society of Actuaries, and is a Member of the American Academy of Actuaries.
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