



Employee Benefit Research Institute 70th Policy Forum

Efficient portfolio approaches for accumulation
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Agenda

- ▶ Middle market accumulators
- ▶ Foundational changes in thinking and approaches
- ▶ Positively affecting outcomes
- ▶ Closing remarks

Middle market accumulators

Multiple quantitative measures identify the same underlying issue...

40% of newly retired couples will outlive their assets

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

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

47% of early boomers will outlive their assets

44% of Gen-X will outlive their assets

Source: EBRI 2010 Retirement Readiness Ratings update, July 2010

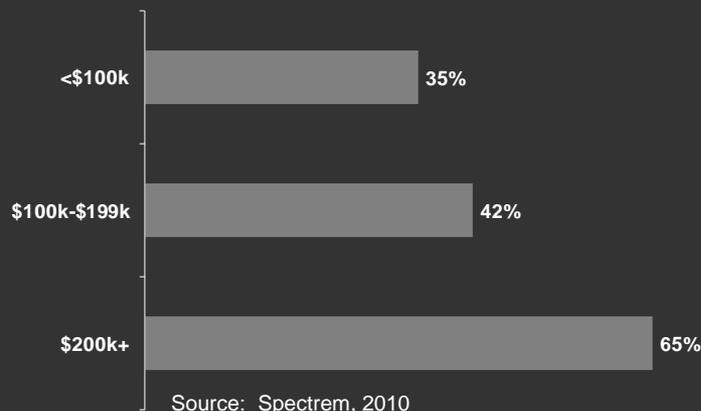
41% of early boomers will outlive their assets

56% of Gen-X will outlive their assets

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+*)



Retirement planning comes too late driven by:

- Life events—job loss, health issues
- Imminent retirement (< 24 months)

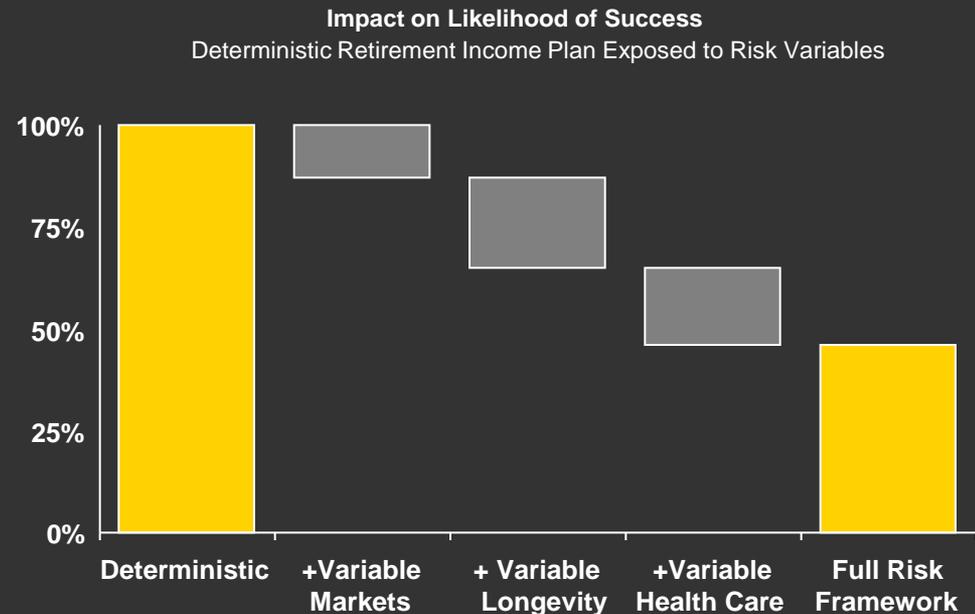
Fewer questions on finances, but have to fix the basics first

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

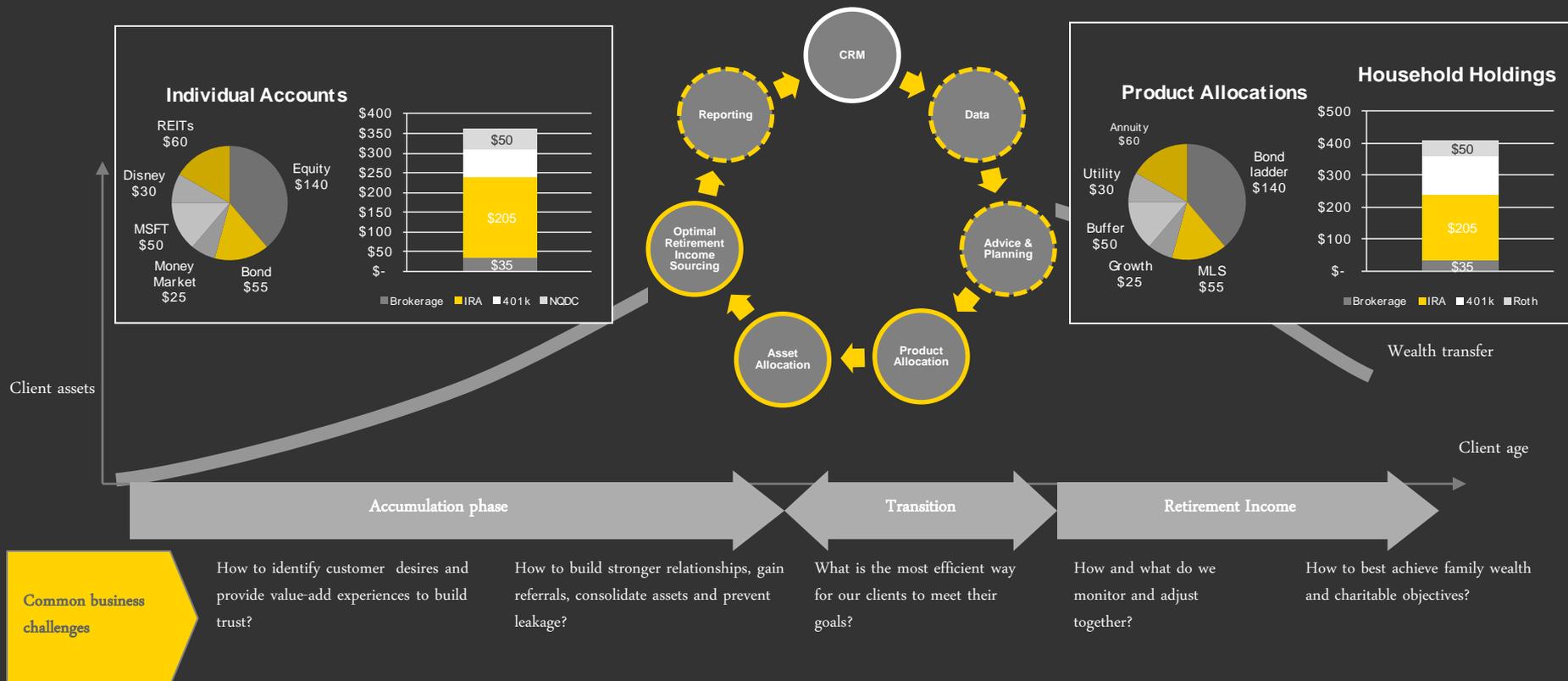


Next generation approaches are addressing these gaps as part of foundational process transformation

Foundational changes in approaches

Customers 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

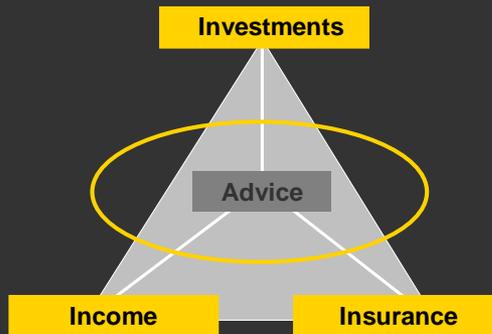


Foundational changes in approaches

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

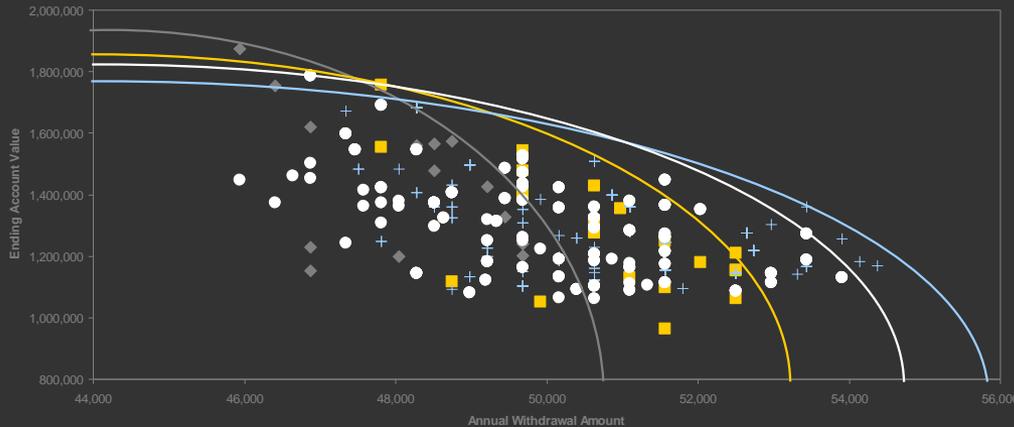


UMH Tax Efficient Income Generation



Positively affecting outcomes

Effects of multi-product allocations

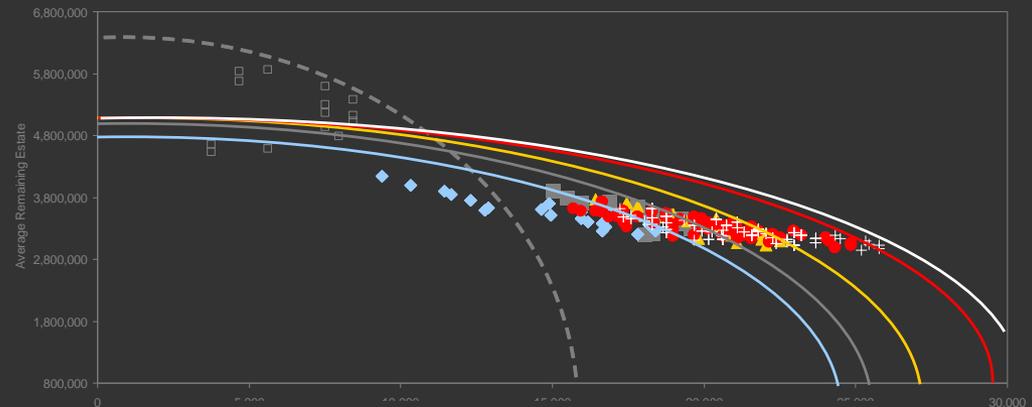


Allocation models for income

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

Allocation models for income and endowment

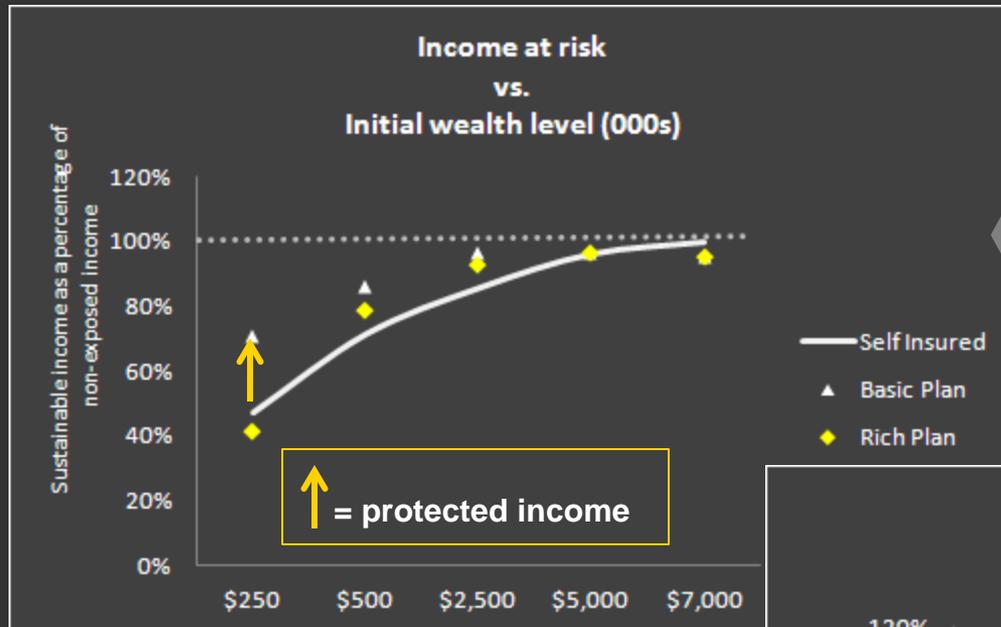
- 2 “Plateau” nature of the frontier suggests that addition of risk products is consistently valuable



Source: Ernst & Young calculations, 2008-2009

Positively affecting outcomes

Effects of addressing healthcare exposures



Income only objective

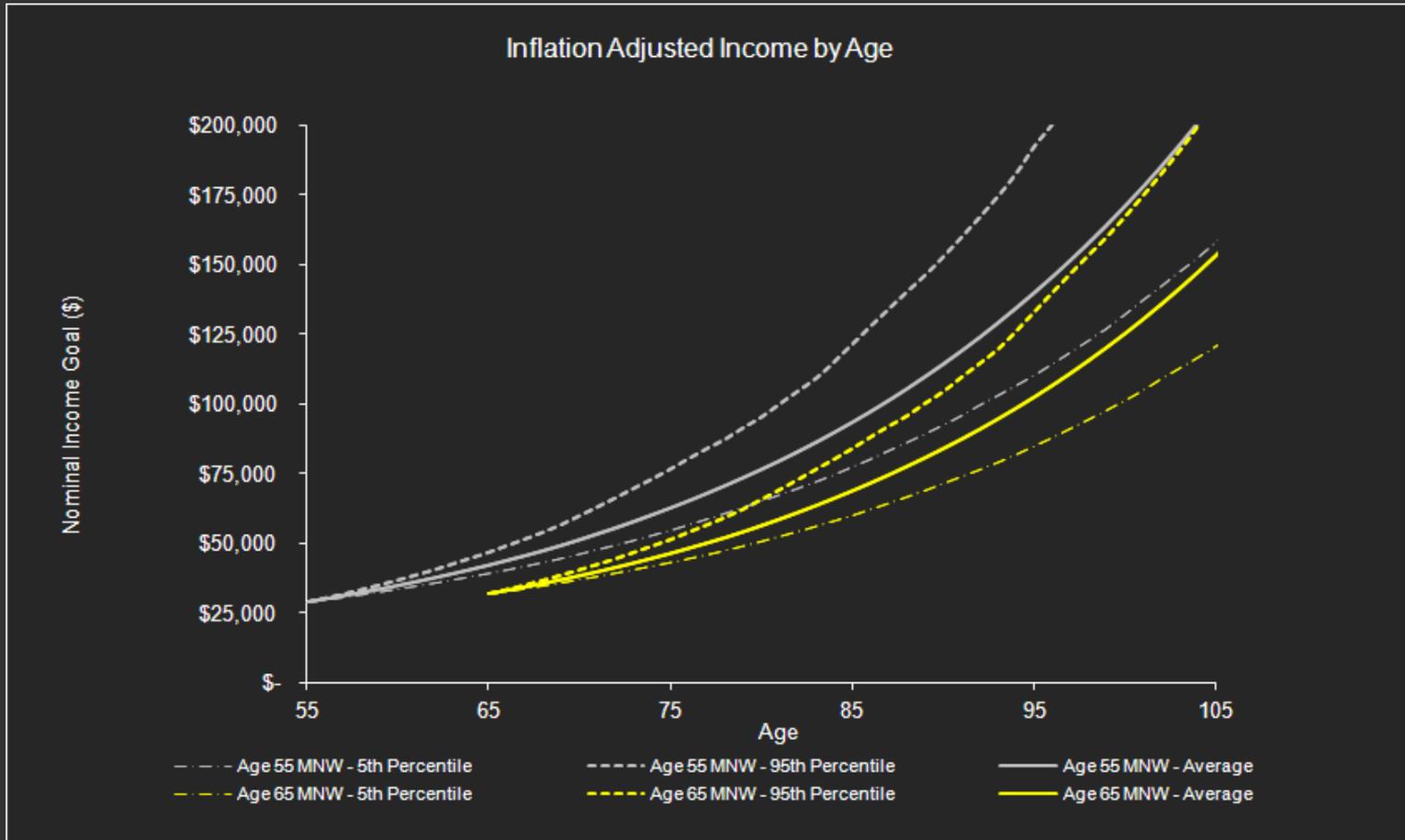
Income and endowment objective



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)

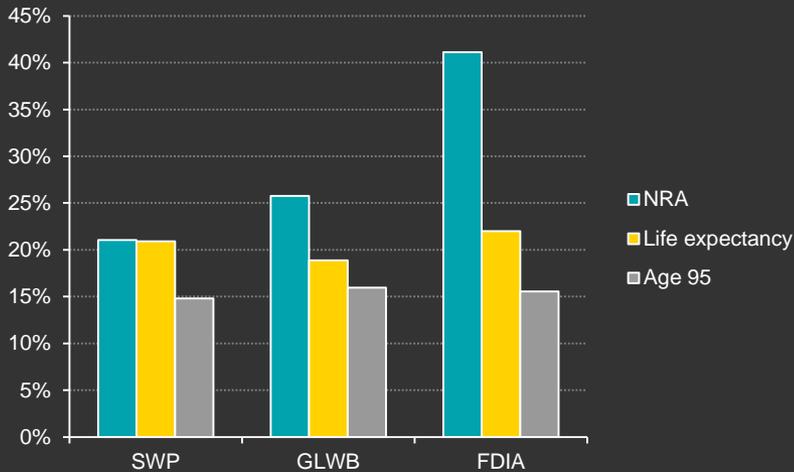
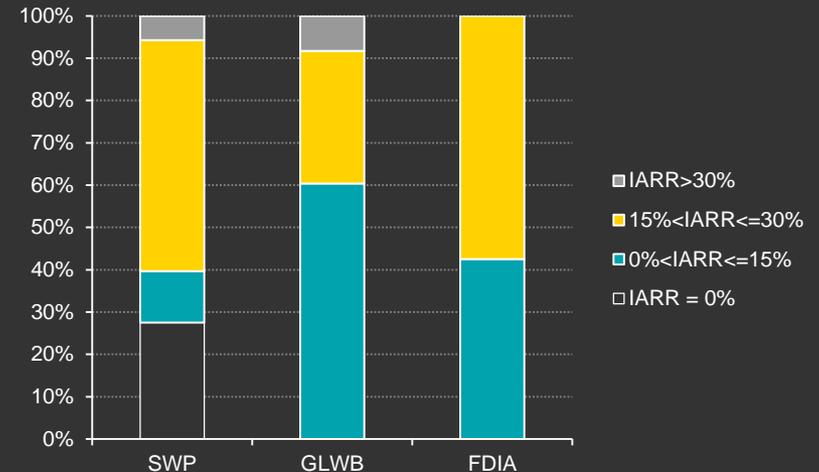


Exhibit IV: Distribution of IARRs at age 95



	Average IARR		
Measurement age	SWP	GLWB	FDIA
NRA	21%	26%	41%
Life expectancy	21%	19%	22%
Age 95	15%	16%	16%

	Sum of real income		
Measurement age	SWP	GLWB	FDIA
NRA (1st year)	\$15,705	\$19,229	\$30,688
Life expectancy	\$282,263	\$302,646	\$465,348
Age 95	\$390,145	\$434,018	\$611,529

	Distribution of IARR		
IARR band	SWP	GLWB	FDIA
IARR = 0%	28%	0%	0%
0% < IARR <= 15%	12%	60%	43%
15% < IARR <= 30%	55%	31%	57%
IARR > 30%	6%	8%	0%

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



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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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