



A New Approach to Managing Risk for DC Members

Emma Douglas
BlackRock

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What are the risks?

- Not joining
- Not enough money going in
- Low investment knowledge
 - Dislike seeing losses
 - May stop saving / will not pay more
- Thinking a £50K pot buys £20k a year
- Not knowing the answer to ‘How much do I need in retirement?’



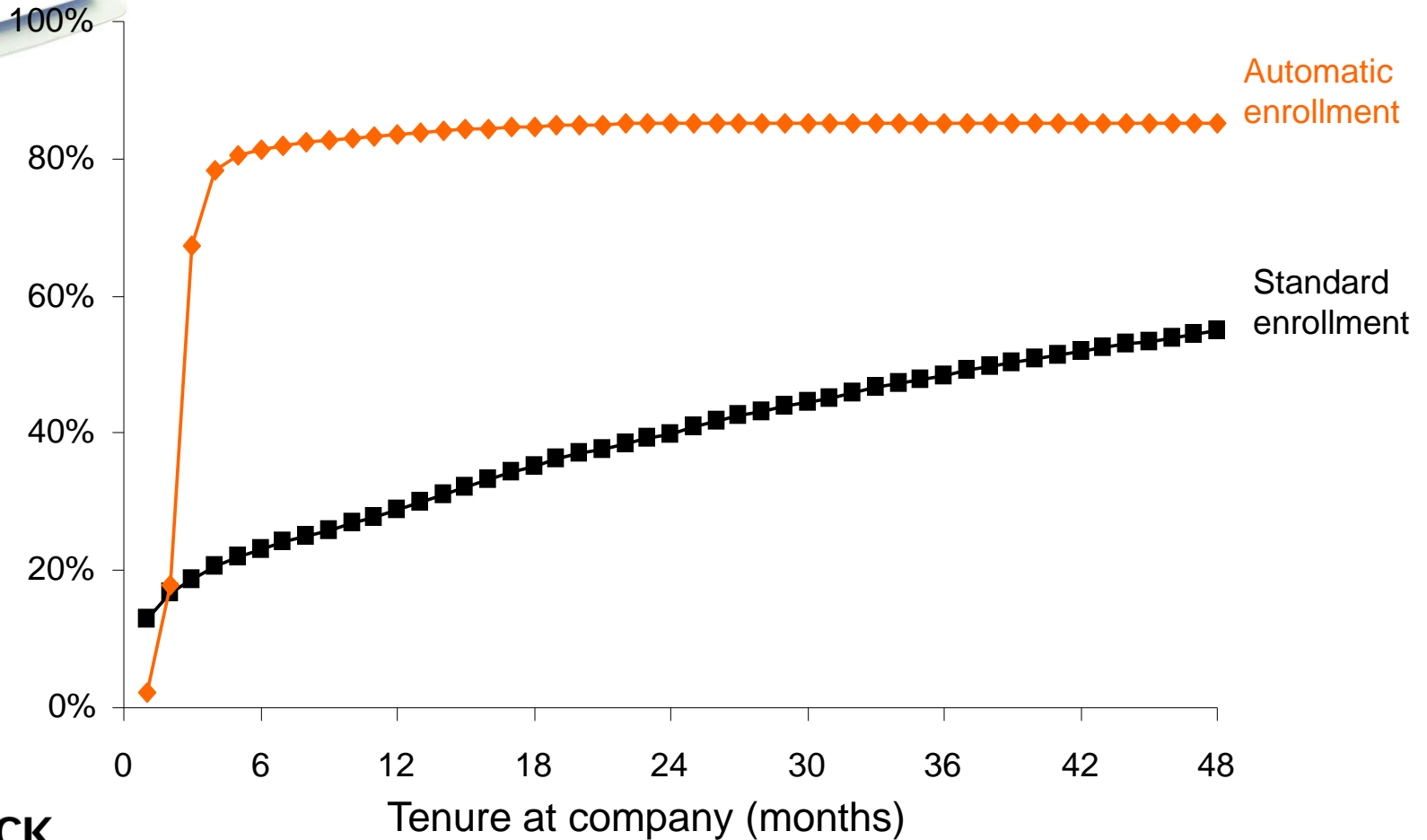
‘DC is a dog that hasn’t barked yet’

Brendan Kennedy
The Pensions Board

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Auto-enrolment helps take-up

401(k) participation by tenure at firm



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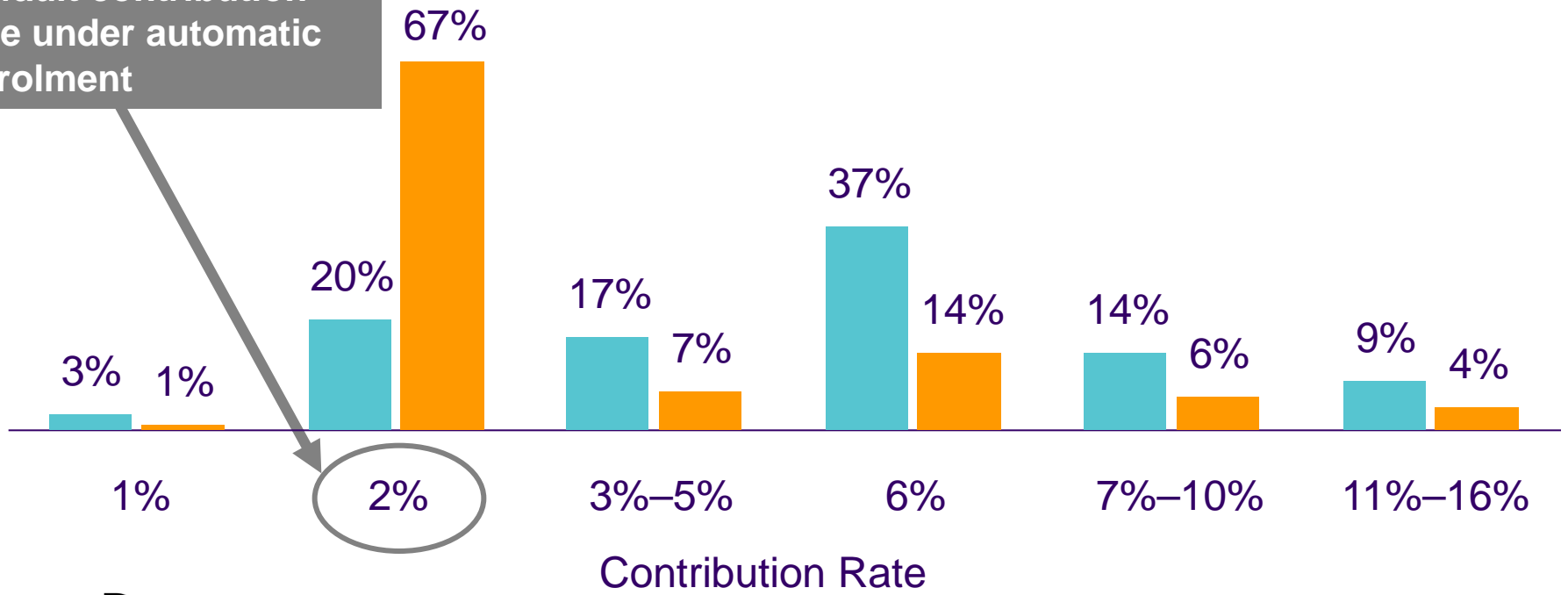
Source: Madrian and Shea (2001), Choi, Laibson, Madrian, Metrick (2004)



But Employees enrolled under automatic enrolment cluster at default contribution rate.

Fraction of Participants at different contribution rates:

Default contribution rate under automatic enrolment



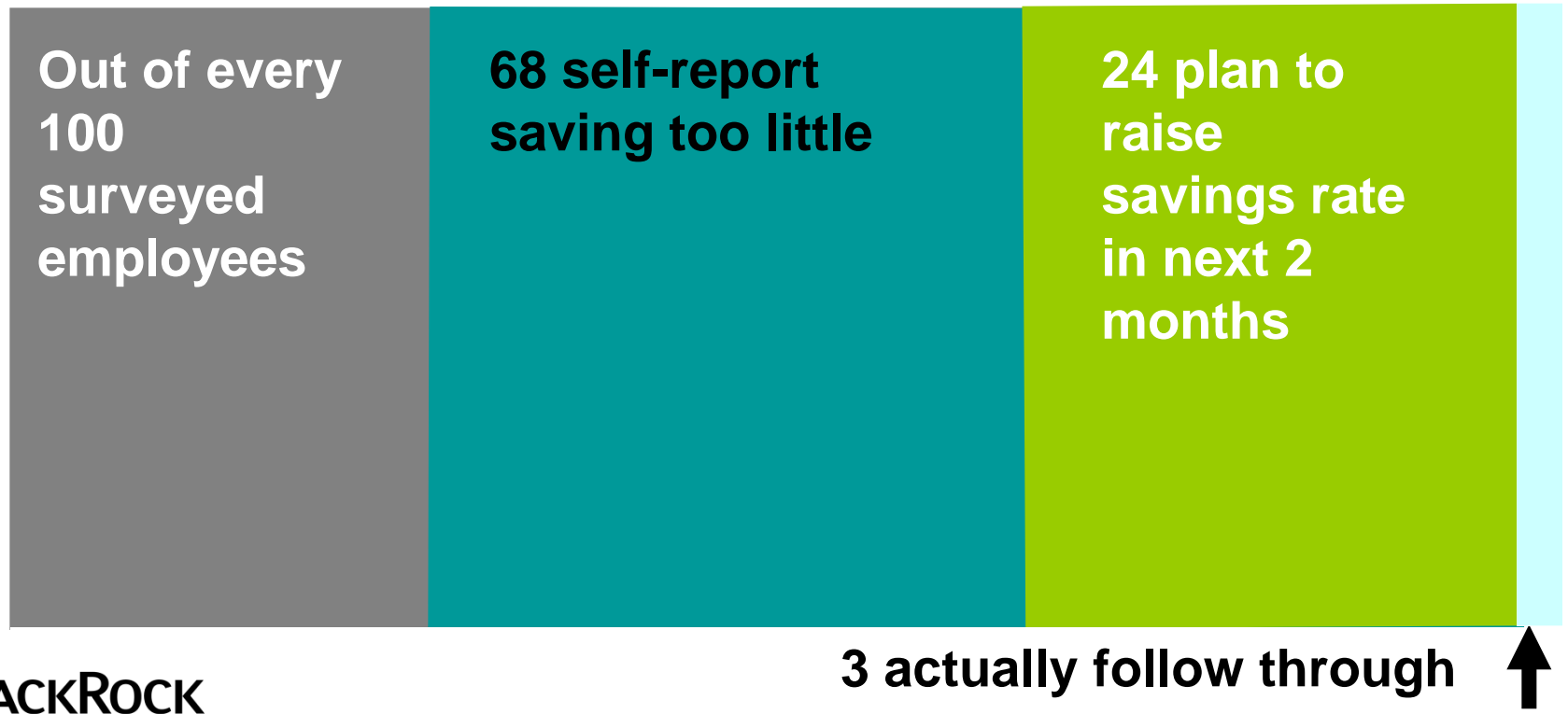
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■ Before Auto Enrolment ■ After Auto Enrolment



Employees know they are not saving enough

Typical breakdown among 100 employees



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Source: Procrastination in retirement savings, Choi, Laibson, Madrian, Metrick (2002)



Members see Investment as a problem

How employees think	Investment issue
'Building Society outlook'	Low risk growth
Hate seeing their investments fall	Volatility
Want 'an expert to make the decisions'	Discretionary Management

Need to get the Default Option right

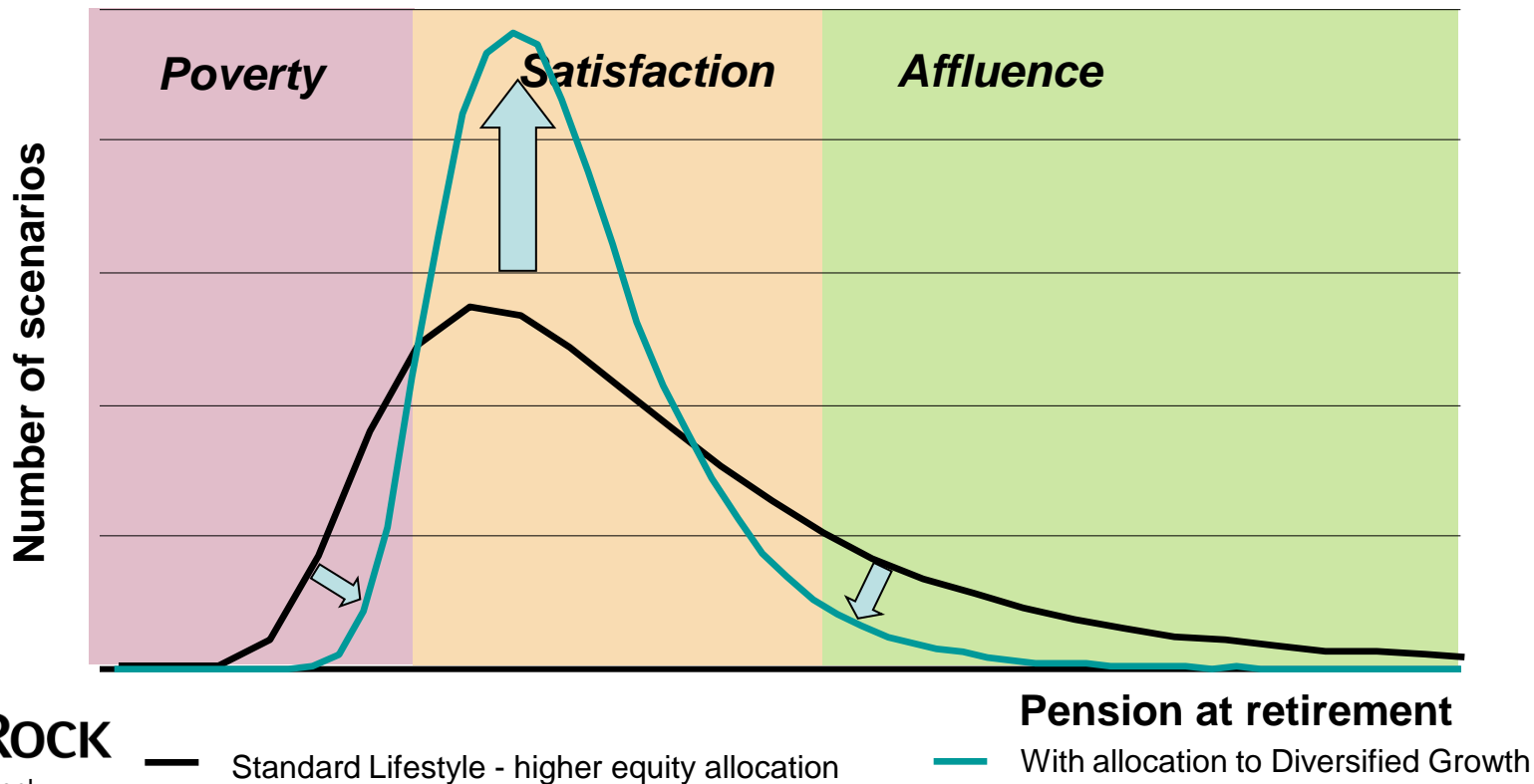
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Overall Impact on members' pensions

- Greater predictability of final outcomes
- Likelihood of bad outcomes much reduced

Likelihood of outcomes



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Source: BlackRock

Diversified Growth increases satisfaction



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But it's still about the biggest...



....Pension pot NOT Income!

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Can we help members focus on income?

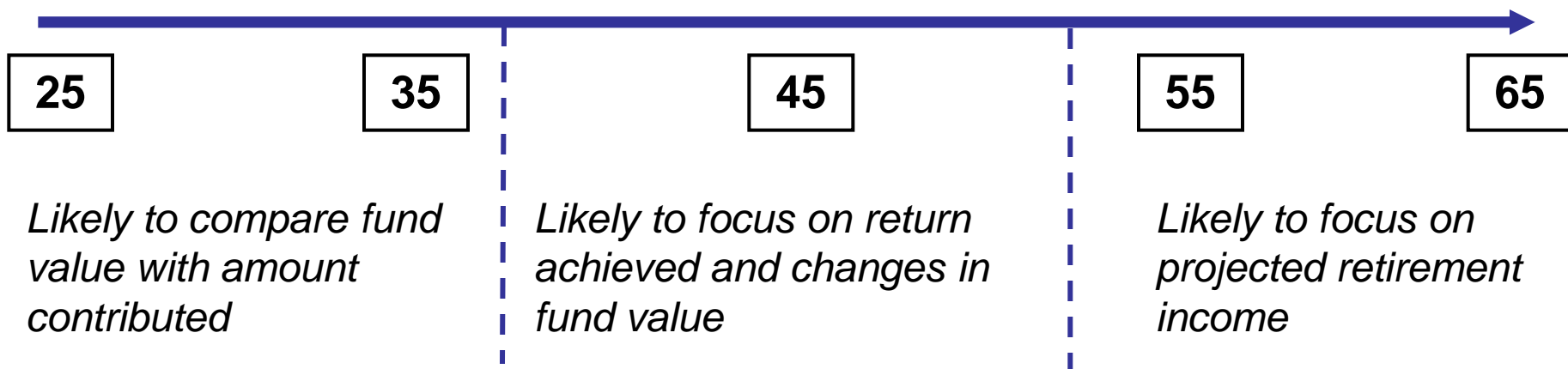
- Contributions shown as a % of income
- Then it's all about the value of your pot
- 'What's my fund value?'
 - Most frequently asked question to helpline
 - Most visited web page
- Benefit statement does convert the pot:
 - Easily lost in the detail
 - It's all estimated / based on today's rates



Focus on income increases with age

- Members' behaviours and needs evolve over time

Age





Employees want to know about their income in retirement

What am I going to get per annum with what I am contributing
(30 – 39)

If I only got information that I understood that said when you retire this is how much you will get
(30 – 39: C1C2)

Having that in my life plan and being able to write down where I am at and being able to work out if I wanted say £2000 a month when I'm 70, what do I have to do now? (40 – 49: BC1)

You get this statement come through and I never understand them. Nobody understands pensions unless they work in that sector.
(50 – 65: C1C2)

You are this age – this is how much you need to live on and what you need to do about it
(30 – 39)

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US DC Thinking

- No requirement to annuitise
- Encouragement to think about income

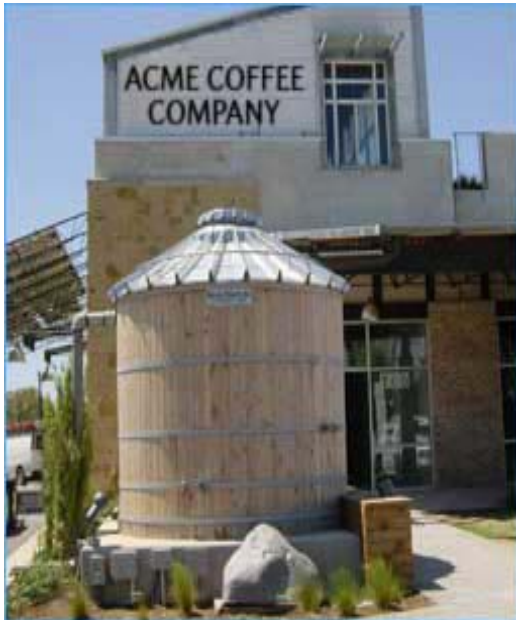
‘The only problem with living longer is that you need more money to do it’



Let's relate it to coffee

**1,000 gallons of coffee
to last your retirement?**

**Or 3 cups of coffee a day
throughout retirement?**



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US DC Products

- Many schemes now using Target Date funds
- Similar concept to Lifestyle
- Asset allocation changes over time within the fund
- BlackRock Target Date funds called 'Lifepath'



US DC Product Development

- Deferred annuities replace traditional fixed income investments: the ‘income portfolio’
- Members also invest in a ‘growth portfolio’
- Allocation to ‘income portfolio’ increases over time



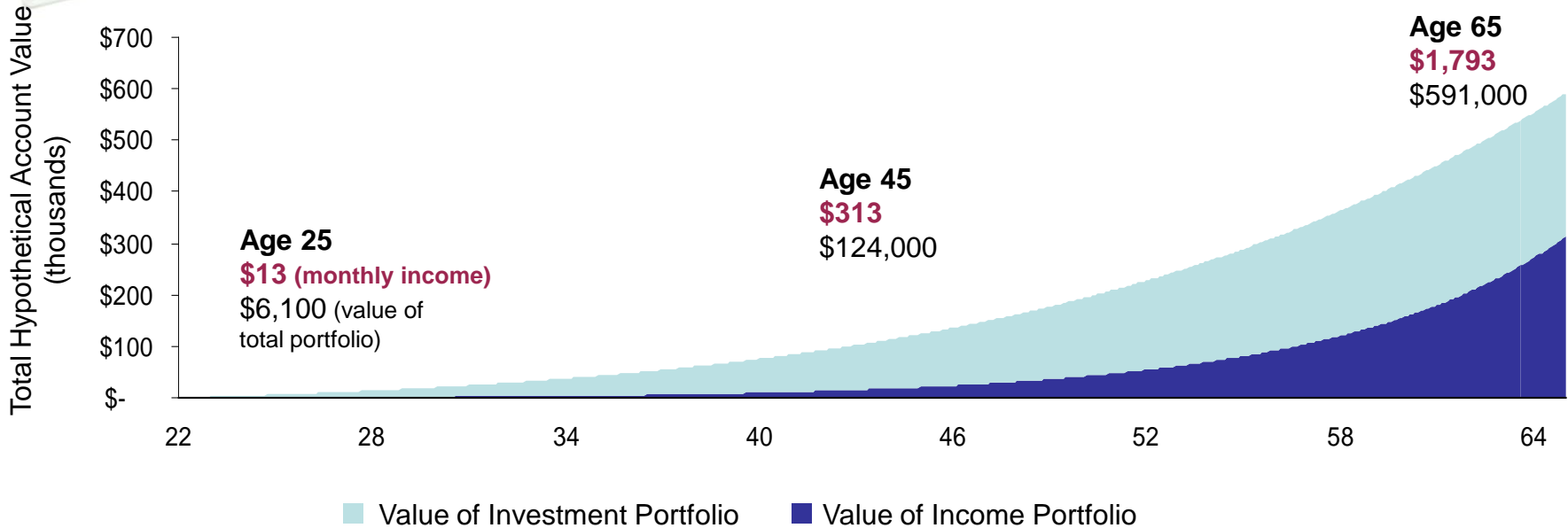
We called it

DI Lifepath Income ETH

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Jake is 22, Salary \$24,500, 4% contribution



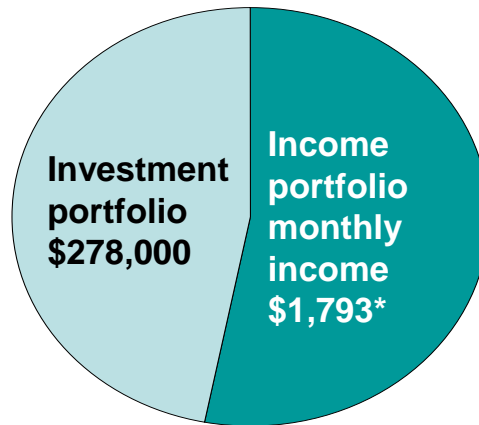
The graph above displays the outcome if the Investment Portfolio Returns 7.75% per annum. There are other scenarios available for review that summarize the output at age 65 under different performance assumptions. All numbers reported in nominal dollars. Assumed Annual Fees = 0.50%. Real Annual Income Increases=0.65% per year. Annual Inflation = 2.5%. Annuity returns = 4.5%. *Monthly income from annuities will be COLA adjusted and will increase over time at a rate of 2.5% per year. For illustrative purposes only. Source-BlackRock Simulations. Actual Results will vary based on employee salary, tenure, market performance, interest rates through time, realized inflation, and company match level.



Meet Jake at Retirement



Jake at age 65



**Total Value
\$591,000**

**Annuity gives Jake a
replacement ratio
of 15%**

** Monthly income is equivalent to \$313,000 in a lump sum at retirement
All numbers reported in nominal dollars. Assumed Annual Fees = 0.50%. Real Annual Income Increases=0.65% per year
Annual Inflation = 2.5%. Annuity returns = 4.5%*

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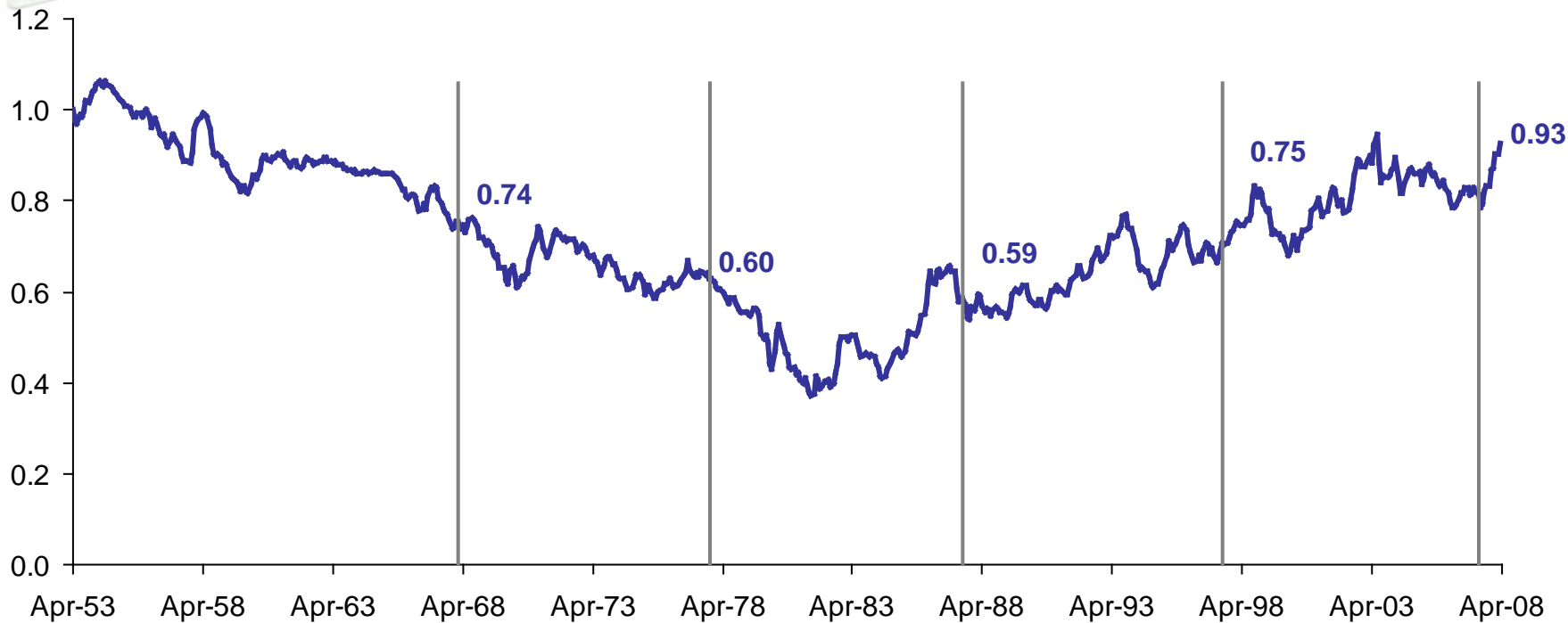
What are the benefits?

- Automatic increases in allocation to income portfolio over time
- £ cost averaging on annuity purchase



Benefits of Buying Annuities over time

Cost of a Dollar of Lifetime Income*



* Prices approximated based on flat yield curve set to the 10 year fixed maturity treasury rate for a 65 year old buying and immediate annuity in the absence of mortality drift, normalized to the 1953 price. Price is for \$1/month of income with 2.5% COLA



What are the benefits?

- Automatic increases in allocation to income portfolio over time
- £ cost averaging on annuity purchase
- Fund valued daily – no penalties on selling
- Can convert to different type of annuity at retirement
- Can see income grow – allows for better planning



What are the issues?

- Practical concerns – not available outside US – yet!
- Reality bites earlier
- It's not good news
- '£1,000 of accumulated assets buys you £1 a week in Retirement'

Tim Jones of NEST

- Members need to think about how much they need





‘What’s my number?’

- Budgeting Tools
- Make it personal
- Not ‘I’m retiring on 31st July 2041’
- When can you afford to retire?
- Do you need to keep working part-time?
- ING ‘What’s my number’ campaign



What's your number?



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Find Your Number

Save For Retirement

Protect Your Savings

Enjoy Your Retirement

For Financial Professionals

Your Number is

\$2,783,306

Change Answers

Congratulations, you're done!

You've got your number and you may be wondering, what now? Since you're planning on retiring in 15 years, you need to start making a plan now. Ask a financial professional for advice on how.

Learn more about saving for retirement →

Learn more about protecting your savings →

Learn more about enjoying your retirement →

Start planning now:

Now that you've got your number, share it with your financial professional to start planning your retirement.

Print your results for your records or to share with your Financial Professional. →

Email your Financial Professional. →

Need a Financial Professional? →

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Even better



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- Find Your Number
- Save For Retirement
- Protect Your Savings
- Enjoy Your Retirement
- For Financial Professionals

Your Number is

£2,450 per month

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- Learn more about protecting your savings →
- Learn more about enjoying your retirement →

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- Print your results for your records or to share with your Financial Professional. →
- Email your Financial Professional. →
- Need a Financial Professional? →

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Retirement - Not an age, not an attitude, it's a number

An advertisement for retirement. The top text reads 'Your DREAM Retirement' in a yellow, 3D-style font. Below this, it says 'Now, only \$7,500/month*'. The background is a photograph of an elderly couple sitting on a sandy dune, looking out at the ocean. The woman is wearing a pink jacket and a straw hat, and the man is wearing a white shirt and khaki pants. A woven basket sits on the sand between them. At the bottom of the ad, there is a line of small text: '*Price includes: Room and Board, basic necessities, transportation, medical coverage for basic care.' followed by a black redaction box.

What's yours?

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