



IAPF Presentation

Retirement Income Industry Association

Steve Mitchell

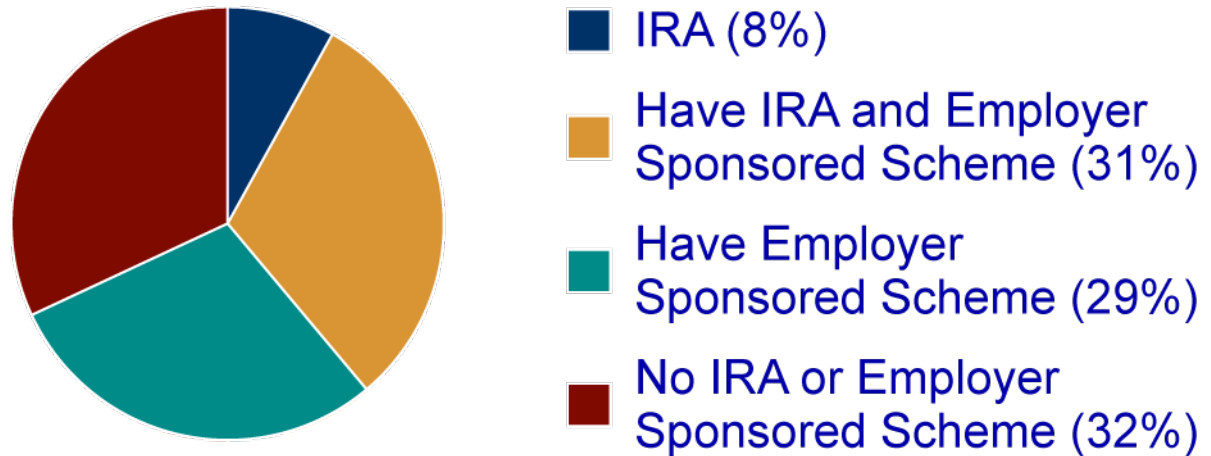




US Retirement Scheme Coverage

40% of households are not covered by an employer sponsored retirement scheme

Percent of US Households with Tax-Advantaged Retirement Savings



Total Number of US Households: 117 million

Sources: 2010 Investment Company Institute Factbook



History of Progress in US Defined Contribution Scheme Communication and Design

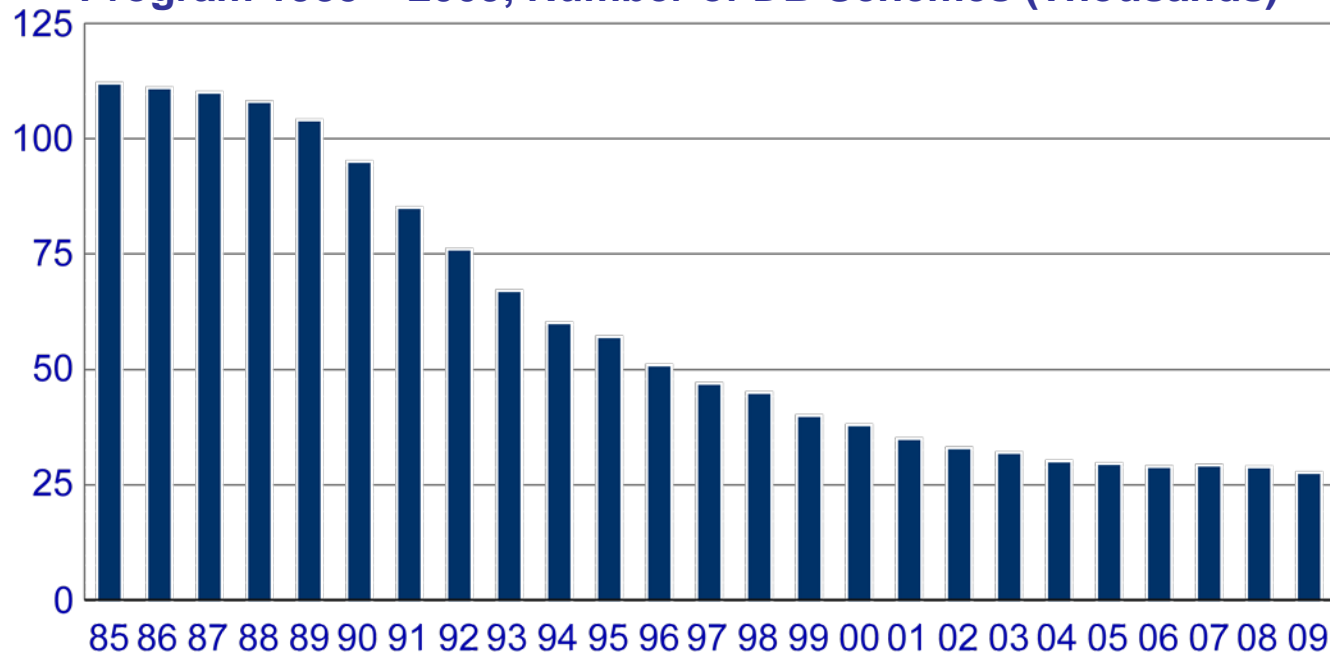
Experience with employee education and communications

- Broad education and “marketing” messages have evolved to targeted campaigns
- “Auto Plan” design
 - Automatic enrollment
 - Auto contribution increases
 - Default investment options
 - Next frontier – default distribution options
- The impact of auto programs on participation



US Corporate Retirement Market Sponsorship of Defined Benefit Schemes Continues to Decline

Total PBGC-Insured DB Schemes, Single Employer Program 1985 – 2009, Number of DB Schemes (Thousands)

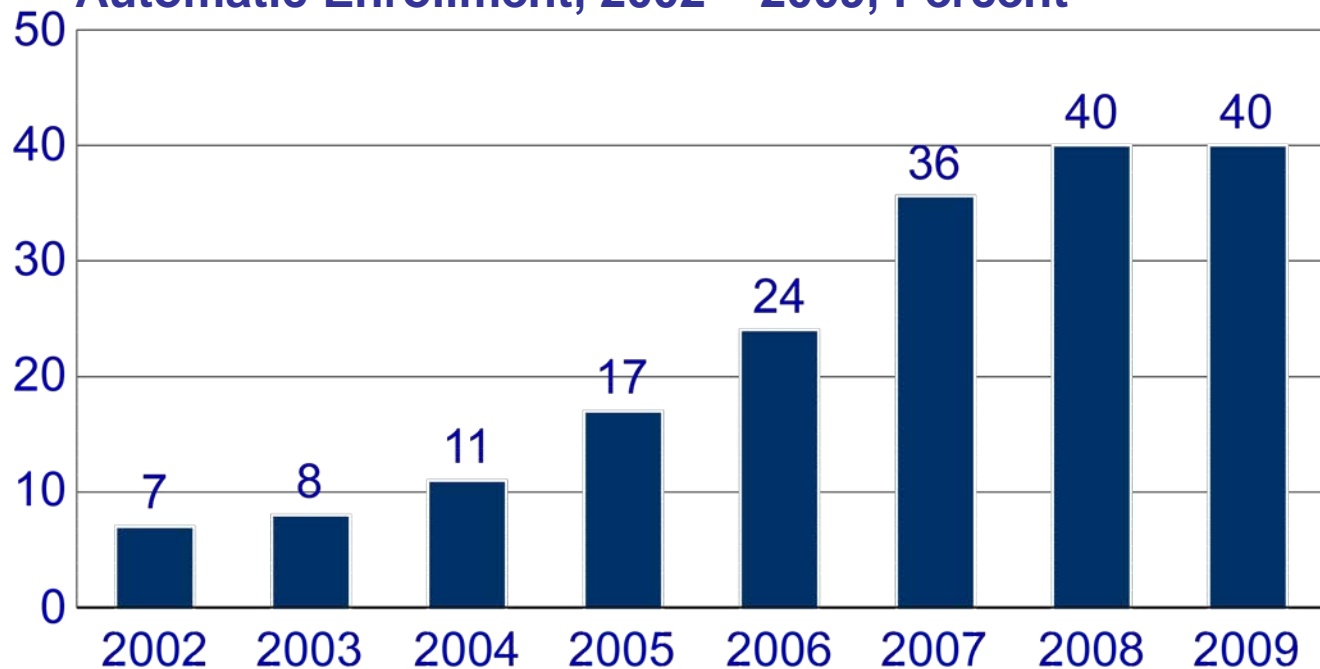


Sources: Pension Benefit Guarantee Corporation; Hewitt Associates; CFO Executive Board Research.



Automatic Enrollment Beginning to Dominate

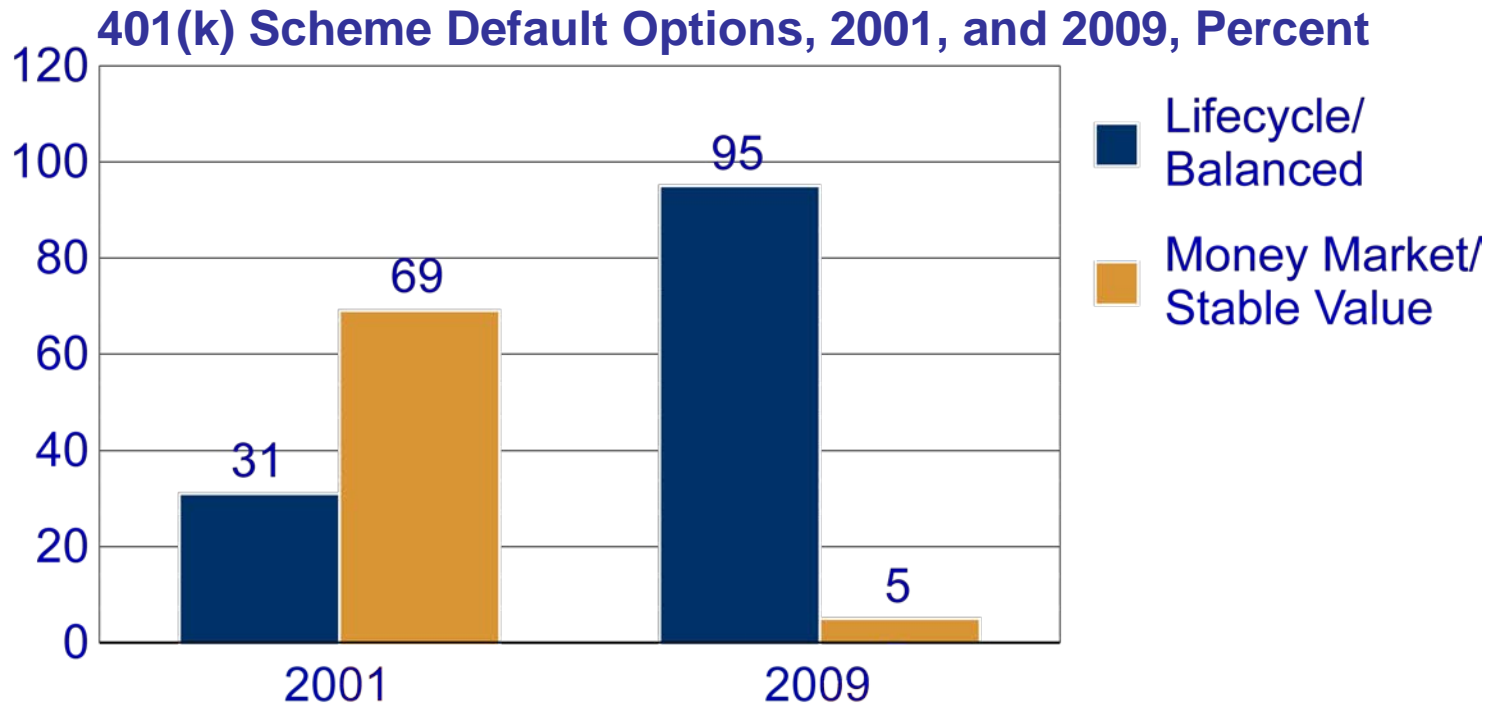
**Percent of 401(k) Schemes Implementing
Automatic Enrollment, 2002 – 2009, Percent**



Source: Profit Sharing/401(k) Council of America, 53rd Annual Survey, 2009 Data
The 53rd Annual Survey reports on the 2009 plan year experience of 931 plans.



Pre-Packaged Multi-Asset Products Dominate Default Alternatives



Source: Hewitt Associates; 2009 Trends and Experience in 401(k) Plans. Information was collected from a cross-section of over 300 plan sponsors. Twenty-nine percent of FORTUNE 500® companies participated the survey.

2001, 2007



Questions for Voting Buttons

Do you believe that employers would be comfortable with auto programs (Y/N)?

Do you believe that employees would be comfortable with auto programs (Y/N)?



The US Individual Retirement Account (IRA) Rollover Market

Individual Retirement Account Rollover – Defined

- Permits a tax-free transfer from an employer scheme to an individual account
- The IRA retains the same tax status and minimum required distribution rules as the employer sponsored scheme account
- Member-directed with a wide range of firms, mutual fund, brokerage or money managed options, as well as IRA annuities



IRA Rollover – A Hypothetical Example of the Rollover Process How the Money Goes In....

From entering the workforce to your early 30s, you accumulate a DC acct at your first employer

Having moved into another industry, you accumulate a DC acct from your next employer through your mid 40s

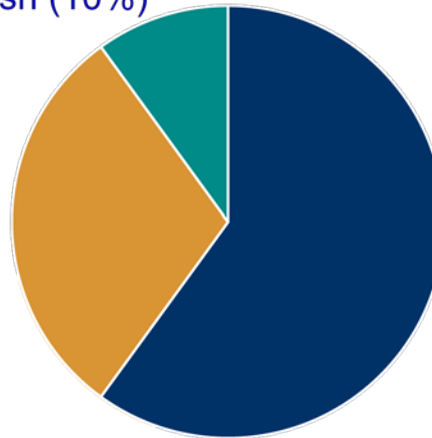
Finally, you receive a DC acct from your tenure as a professor until retirement

IRA Rollover

Cash (10%)

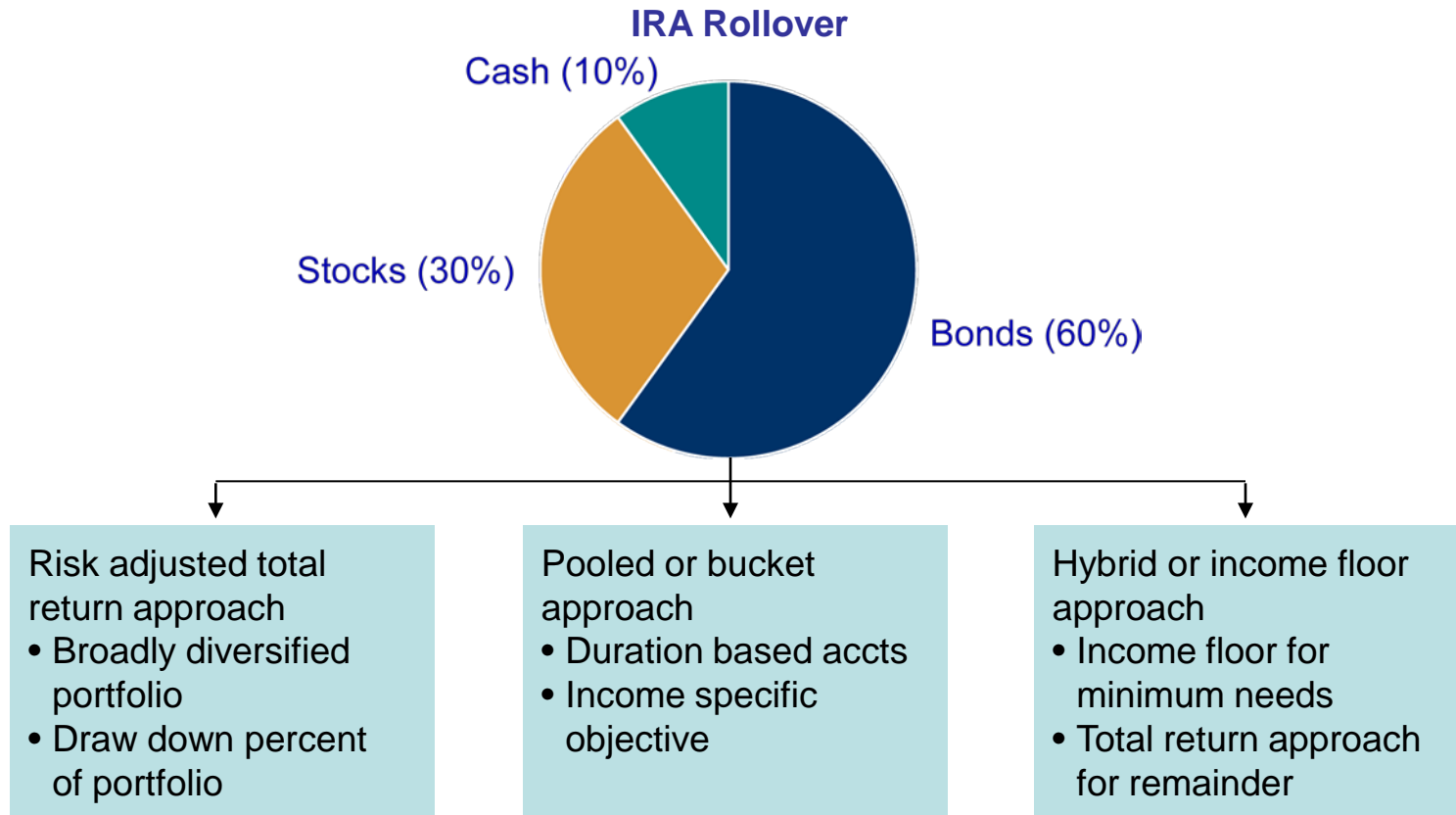
Stocks (30%)

Bonds (60%)





IRA Rollover – A Hypothetical Example of the Rollover Process How the Money Goes Out....



Source: Brightworks Partners, LLC



Member Attitudes and Interest In Scheme Annuity Options

Many firms are now offering payout funds as a retirement option

- They can be marketed as a way for a member to replicate an income stream, similar to that of a defined benefit pension
- The funds are designed to produce an roughly level stream of income, which will be distributed monthly from inception until the fund's termination date



*US Treasury Inflation-Protected Securities are the inflation-indexed bonds issued by the US Treasury.



Examples of Payout Strategies

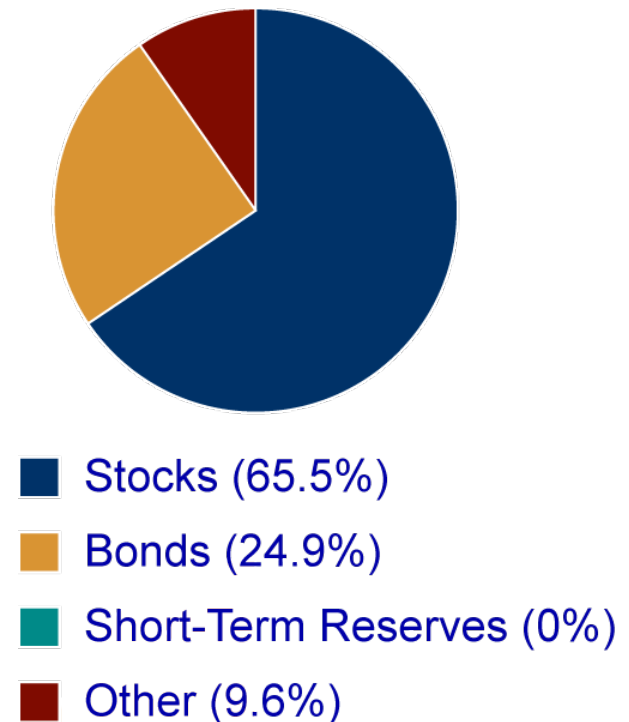
The reality is

- The underlying investments in the funds vary by investment firm
- PIMCO Real Income Funds
 - Invest mainly in U.S. Treasury Inflation-Protected Securities with a goal of providing inflation-adjusted incomes
 - The funds are complemented by MetLife's Longevity Income Guarantee Funds, which provide income distributions once assets from the PIMCO funds are depleted
 - Uniquely offered as a solution using two retirement products in combination Fidelity Income Replacement Funds
 - Also seek for payments to keep pace with inflation
 - Take a more diversified approach, investing in an mix of Fidelity mutual funds
- Vanguard Managed Payout Funds
 - Also have a more diversified asset base, with options ranging depending on risk tolerance
 - The funds target different payouts, with options of a 3%, 5% or 7% target



Sources: Vanguard, Pimco, Fidelity

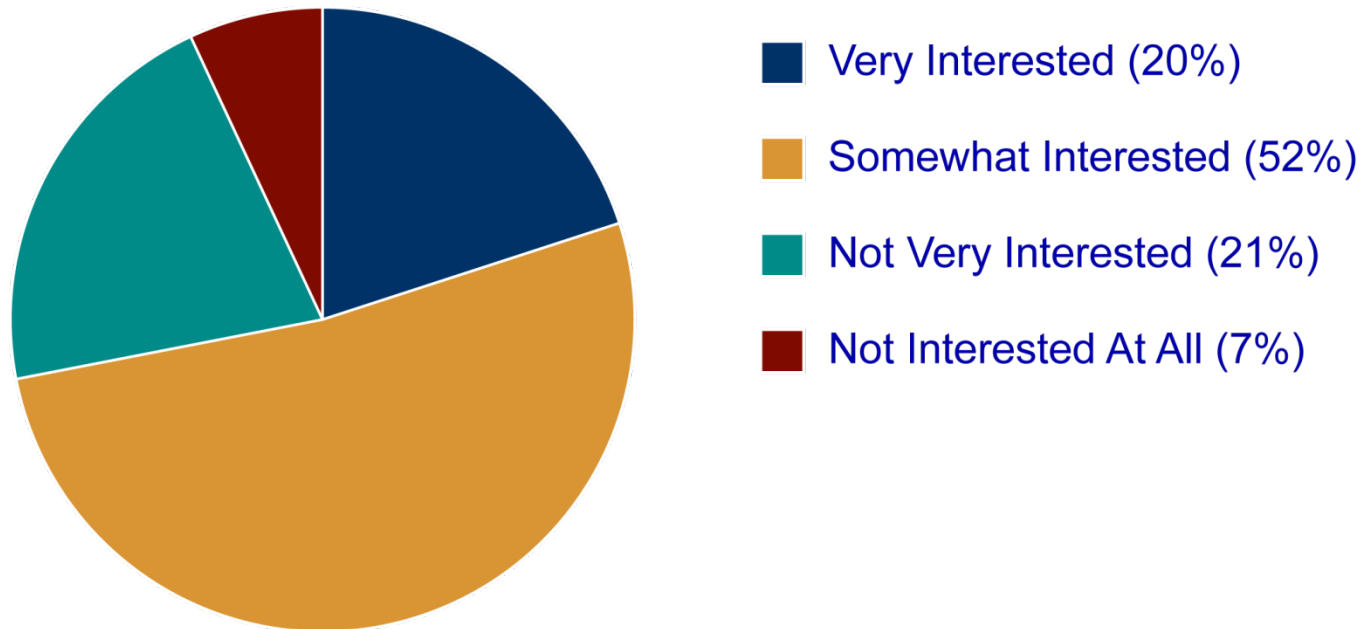
**Vanguard Managed Payout Distribution
Focus Fund Investor Shares –
Asset Allocation as of 31 March 2011**





Member Attitudes and Interest In Scheme Annuity Options – 72% of Members Somewhat or Very Interested

How interested would you be in contributing to an investment option within your DC scheme that instead of accumulating an asset balance focuses mainly on generating a guaranteed monthly income in retirement?

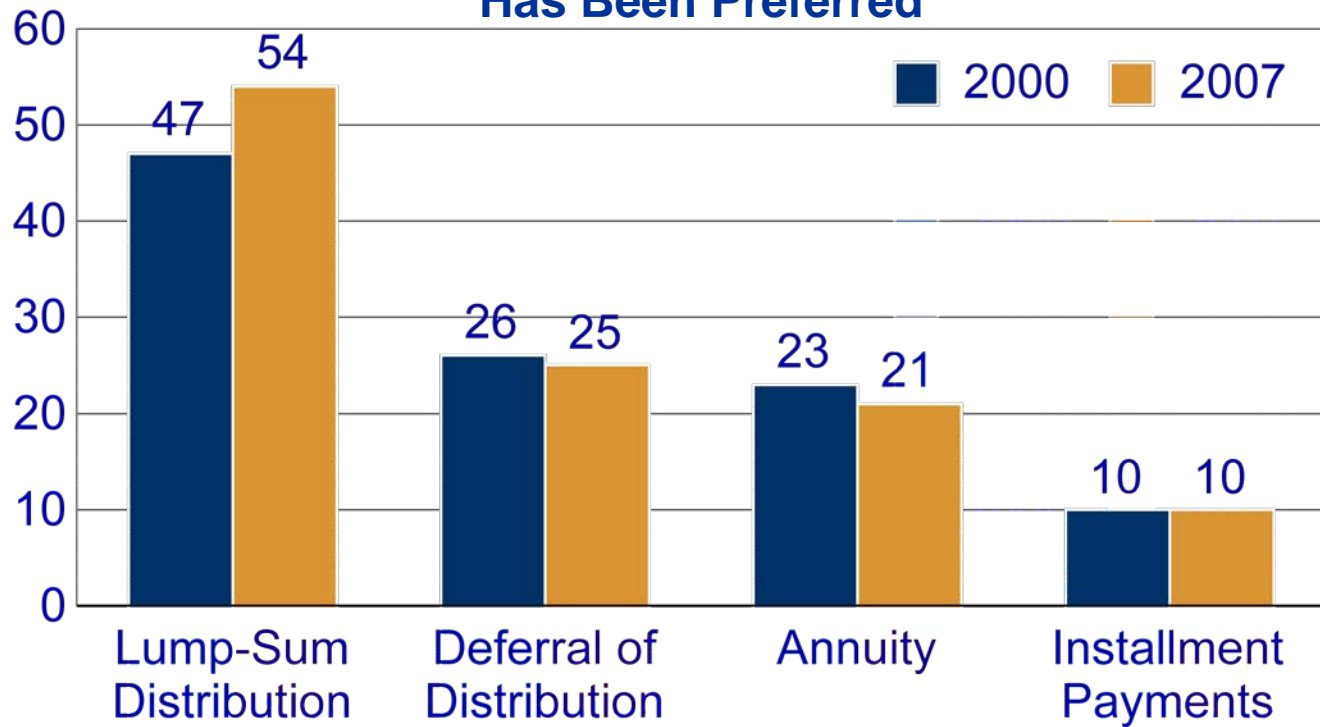


Source: Brightworks Partners, LLC



Distribution Options Selected by Retirees with Choice

Lump Sum
Has Been Preferred



Number of respondents in 2000 = 418

Number of respondents in 2007 = 420

Sources: Investment Company Institute, Defined Contribution Plan Distribution Choices at Retirement
A survey of employees retiring between 2002 and 2007





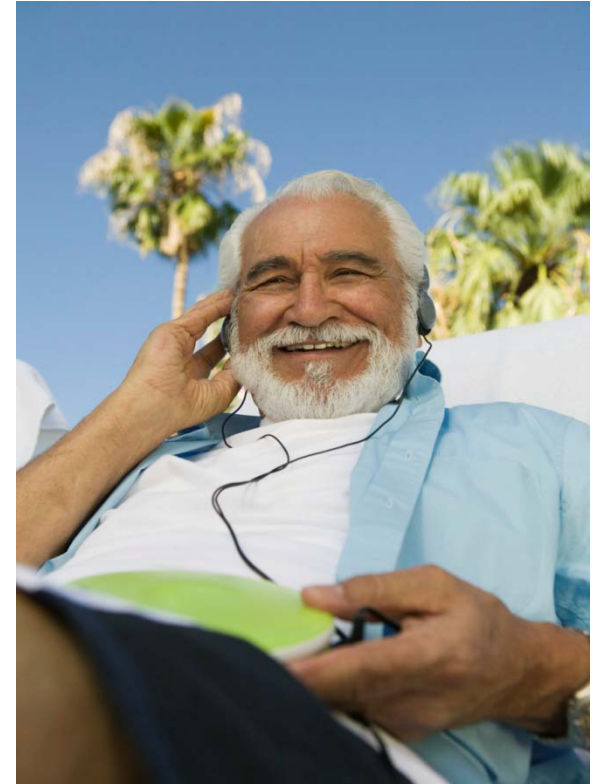
Critique of US System

Does Santa Claus get to Retire?

Created an unrealistic dream

Too complex

- Has not met the objectives for many workers
- Pension schemes are disappearing
- Social Security, the Pension Benefit Guarantee Corporation (PBGC), most public pensions, many private pensions and the vast majority of baby boomers are all underfunded





Critique of US System

The reality is

- The industry helps those who have good incomes, live within their means and save and invest for the future
- The only real alternative for the vast majority of baby boomers and future generations is to retire later (or not at all) or work at least part time in retirement
 - Many psychologists would say this isn't necessarily bad
- As a result, retirement, and perhaps work, will be redefined

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"Have you given much thought to what kind of job you want after you retire?"



What If...You Could Start With a Clean Sheet?

If you had a clean sheet of paper, what would the ideal system look like?

- Would it be DB, DC or both?
- Would contributions come from the employer? Employee? Both?
- What would be the vesting requirements? None? 1 to 3 years? 5 years? Longer?
- Would contribution rates be set? Defaulted? Or left to employee choice?
- Would investments be set? Defaulted? Or left to employee choice?
- What would be the normal retirement age?
- Would tax advantages be offered to encourage savings outside employer schemes (Y/N)?



Questions?





The US Individual Retirement Account (IRA) Rollover Market

Largest single source of “money in motion” (baby boomers retiring) creating a highly competitive market

Winning firms typically are either

- The service provider to the plan
- The individual’s primary investment firm, if they already have a retail relationship

Fidelity Investments is the US retirement industry leader with approximately 20% share of the DC market and 15% share of the IRA market*

- Significant employer share gives Fidelity exposure to a significant percentage of the work force, particularly as workers typically hold jobs with multiple employers over the course of their career
- Strong retail presence, with constant advertising and marketing reinforces the relationship

Recordkeepers typically factor member rollover capture into scheme sponsor new business pricing



*Source: Retirement Income Industry Association



Questions for Voting Buttons

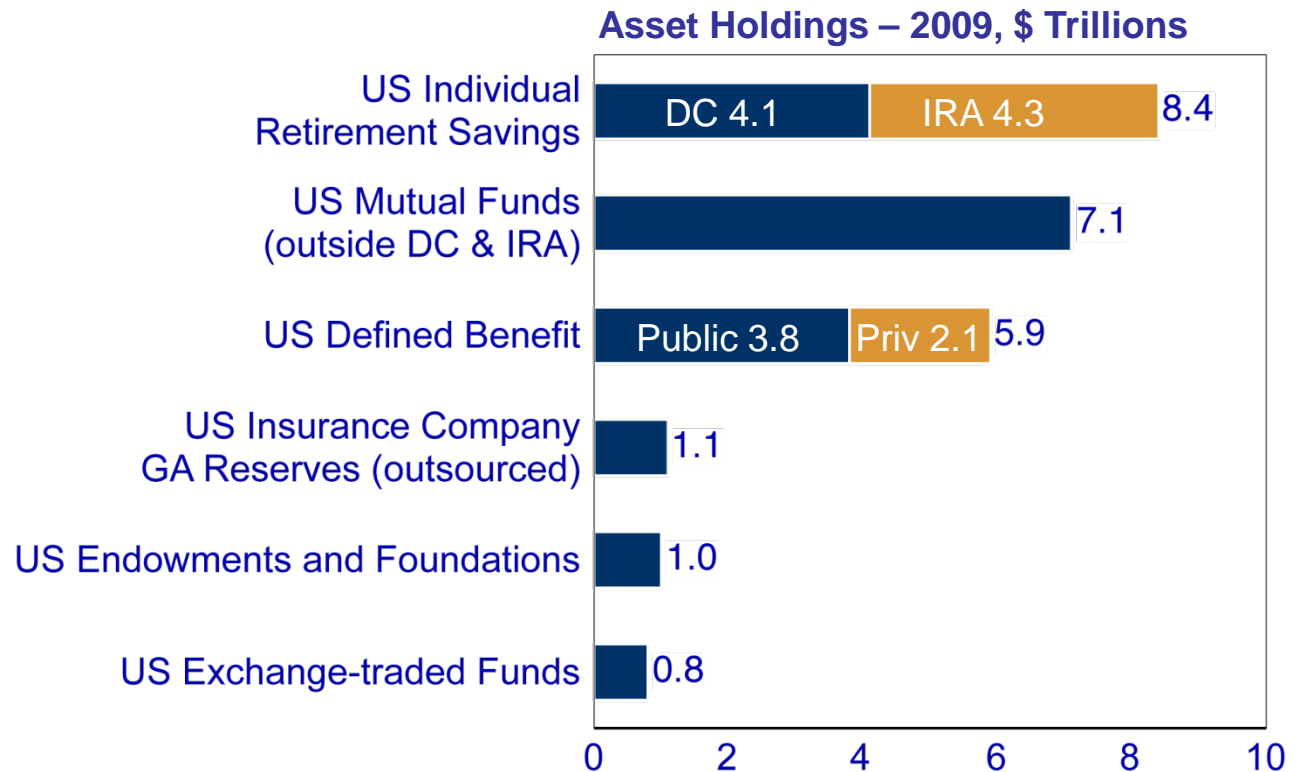
As a trustee or sponsor, do you prefer members stay in the plan or leave the scheme?



Pools of Assets in the US

The Largest Growth Opportunity In the US – DC and IRA

DC and IRA assets combined represent the largest asset management opportunity



Sources: Federal Reserve Flow of Funds; NACUBO; Foundation Center; Sovereign Wealth Fund Institute



Plan Provider Best Practices

Provide a high level of member service, education, planning and guidance

- Establish a relationship with the individual member

Good range of high quality investments is important

Retention through high touch education and service at point of termination or retirement

- Member's options (stay in scheme, rollover, take cash)
- Advantages of staying in scheme (particularly important if no retail presence)
- If a retail presence, why rolling over to an IRA with the same firm may be advantageous

Work with scheme sponsor to ensure the plan is retiree "friendly"

- Flexible distribution options in retirement
- Allows rollovers in from other (prior) schemes
- Retirement income planning assistance

Challenge: The scheme can never be the consolidation vehicle, if the member has

- Other retail investments
- A spouse with retail investments or an account in another plan



Retail Provider – Best Practices

Establish relationships with customers early

- Provide value added retirement services
- Identify triggers where your customers may be changing jobs or retiring

Make it easy to roll over to an IRA – Do it for them