Does Ignorance Mean No Bliss?

The connection between a reliable income stream and a content retirement

National Employee Benefits Advisory Forum

Executive Summary

Even though planning for a secure retirement is one of Americans' top financial concerns, consumers are not saving enough for this important period in their lives. While this may be at least in part attributable to Americans' tendency for spending and consuming, it is most certainly also due to an insufficient understanding of the amounts of income needed to secure a comfortable retirement and an inadequate understanding of the financial vehicles available to help meet investment goals.

It is clear that Americans also link the regular sources of income to a feeling of comfort about retirement security. There is already well-documented demand for a reliable, guaranteed income stream in retirement, and future retirees may continue to seek out or create new sources of guaranteed lifelong retirement income, such as annuities.

Employers play a key role in the retirement saving and planning process, as they bear the burden, costs and effort of establishing and administering retirement plans. Offering benefits that help meet consumers' needs and ease their worries can help improve retention and productivity.

Brokers are often called upon by employers to help identify and explain the best benefit options for their employees, and it may be challenging to their brokers to help identify and explain the best benefit options for their employees, it may be challenging for brokers to keep apprised of all the products and services under development to meet the demands for a guaranteed retirement income stream. Becoming and staying aware of the benefits and drawbacks of existing products and services, as well as those under development, is an increasingly complex task, particularly in light of changing taxation and regulatory environments.

Several insurance carriers and investment services providers are developing products to meet these needs, and the environment will become more complex as baby boomers age and think more seriously about retirement. While there are currently a mix of service (advisory) and product-based (annuities) solutions offered by financial services leaders today, we look forward to further development of such solutions and greater integration of the delivery of these solutions to American workers in the workplace, with employers playing a critical role.

Employers and brokers who work with employers play, and are expected to play, a key role in the retirement savings and planning process. This paper will help explain:

- Why consumers are not saving enough for retirement, even though employees indicate they want a regular source of income;
- Existing products and the confusion in the marketplace; and
- Products in development by benefits carriers that could be offered by employers to help their employees create a source of retirement income.

By understanding these areas, employers and brokers will be better

Methodology:

The information presented in this paper has been compiled from multiple sources, including research recently completed by The Center For Strategy Research, Inc.; presentations at the February, 2006 Retirement Income Industry Association conference by Fidelity Investments, MetLife, Merrill Lynch, Northwestern Mutual, and The Center for Strategy Research; and thought leadership and other material offered by, and available on the Web sites of, Prudential Insurance, MetLife, Principal Financial Services, Fidelity Investments, Merrill Lynch, Northwestern Mutual and T. Rowe Price Associates.

equipped to meet employees' expectations and help them establish a comfortable feeling with retirement security.

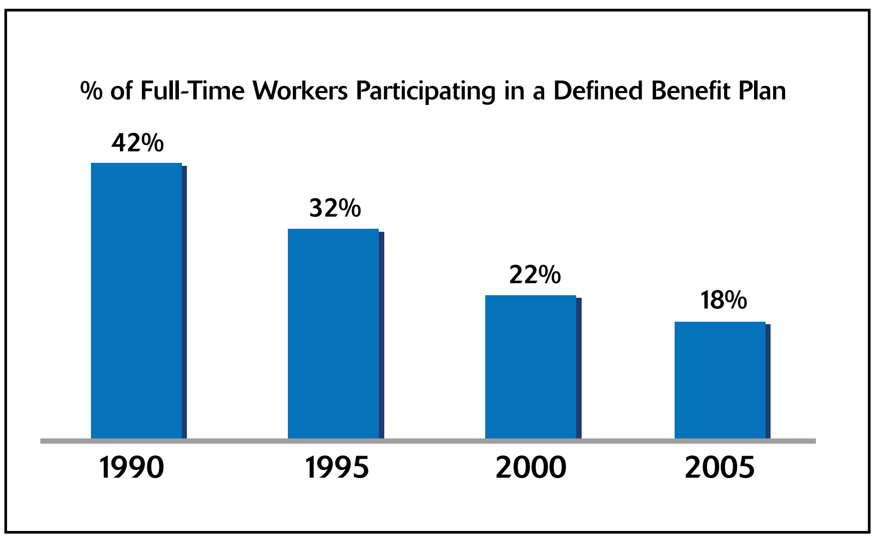
In this paper, we will explore the following 5 areas:

1. The current guaranteed income environment
2. Investors' expressed needs for reliable and predictable income streams in retirement
3. Challenges with current solutions
4. Why retirement income issues are important to employers, even though they appear to be important to those no longer working.
5. Solutions under development and in the market today.

1. The current guaranteed income environment

Retirees with a regular income from a pension **or** annuity are more than twice as likely to say their retirement is "much better than expected it to be" than those who do not have this regular income source, according to the 2005 MetLife Retirement Income Decisions Study of over 1,000 pre-retirees and retirees (ages 59 to 71). In fact, retirees with a regular income from **both** a pension **and** annuity are more than **three times** as likely to say their retirement is "much better than expected" than those without such sources.

Whereas in 1980, 66% of assets were in defined benefit plans and 34% in defined contribution plans, today the results are nearly completely reversed, with 63% of assets in DC plans and 37% in DB plans. The chart below, which demonstrates the number of American workers covered by Defined Benefit plans, illustrates this trend quite clearly.



Source: Bureau of Labor Statistics and Cerulli Associates, Retirement Income Industry Association Conference, MetLife, 02/06.

Of course, without proper planning and appropriate financial arrangements, the assets in defined contribution plans will not generate the same kind of guaranteed lifelong retirement income as did assets in DB plans. Where logically, one might believe future retirees may seek out or create new sources of the kind of guaranteed lifelong retirement income

Did You Know?

Whereas in 1980, 66% of assets were in defined benefit plans and 34% in defined contribution plans, today the results are nearly completely reversed, with 63% of assets in DC plans and 37% in DB plans.

normally provided by DB plans[1], only 2% of assets in DC plans have in fact been annuitized to date[2].

Why is this the case? The reasons vary from the simple to the complex, and range from incapability or disinterest to save, ignorance of future income requirements, and ignorance of products such as annuities.

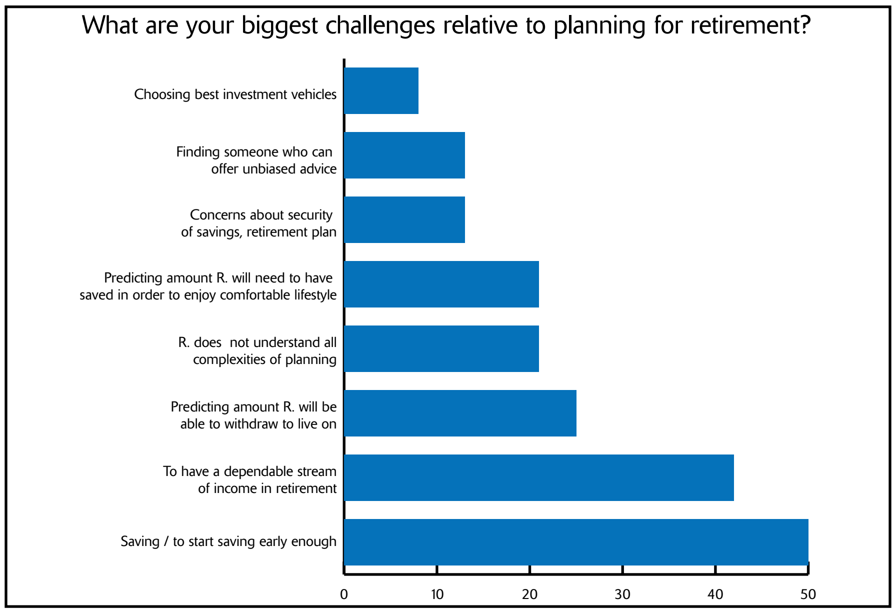
Did You Know?

Although 50% of Americans feel that their biggest challenge is starting to save early enough for their retirement, only 15% make it their primary focus.

A. Inadequate savings

Despite a professed goal of a financially secure retirement, saving for retirement is not the primary financial focus of most Americans. As a successful lawyer told The Center for Strategy Research in a recent interview:

> "I think we're a pretty successful family, but investing seems for some reason not to be part of our way of looking at the world. We're mostly busy spending instead of investing."



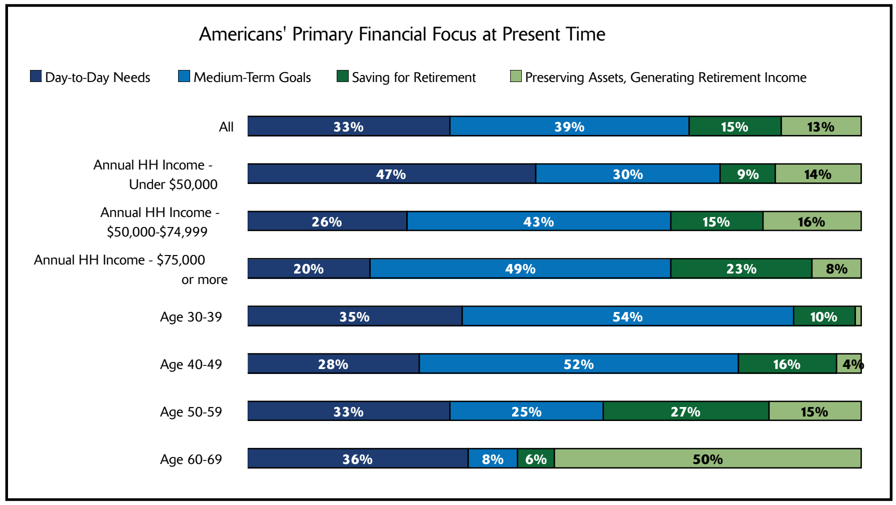
Source: Retirement Income Industry Association Conference, The Center for Strategy Research, 02/06.
(Note: "R" is an abbreviation for "Respondent")

Americans' lack of focus on saving for retirement is echoed in a recent Prudential Investments survey. The chart below illustrates that over 70% of respondents are concerned with short- and medium-term spending, and retirement savings is a distant third priority.

1 The U. S. Department of Labor, Pension and Welfare Administration; Cerulli Associates; Retirement Income Industry Association Conference, Keith Hylind, MetLife, 02/06.
2 EBRI Survey of Consumer Finances; Retirement Income Industry Association Conference, Keith Hylind, MetLife, 02/06.

Did You Know?

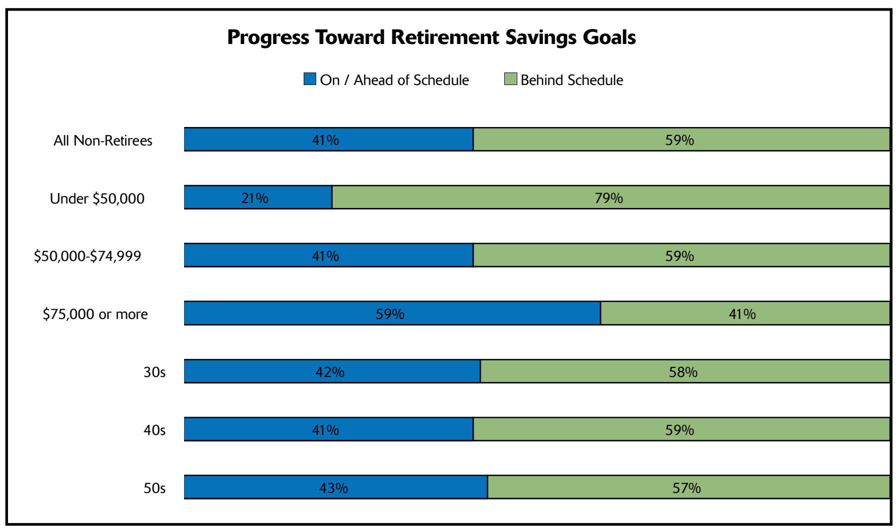
With the focus on meeting day-to-day needs and medium term financial goals, six in ten Americans believe themselves behind schedule in terms of saving for retirement.



Source: What Happens When Living Life Today Gets in the Way of Financial Security Tomorrow, Prudential's Four Pillars of Retirement Series 2005 (Note: "HH" is an abbreviation for "Household")

Saving for retirement is not the primary financial objective of American consumers. This does not vary by income: Americans making more than $75K annually are not more focused on retirement savings than are households with income below this threshold. Less than one-third of either group is primarily focused on retirement savings or income.

Only when they get into their 50's does saving for retirement become a top goal, and even then, almost six in ten have other priorities.



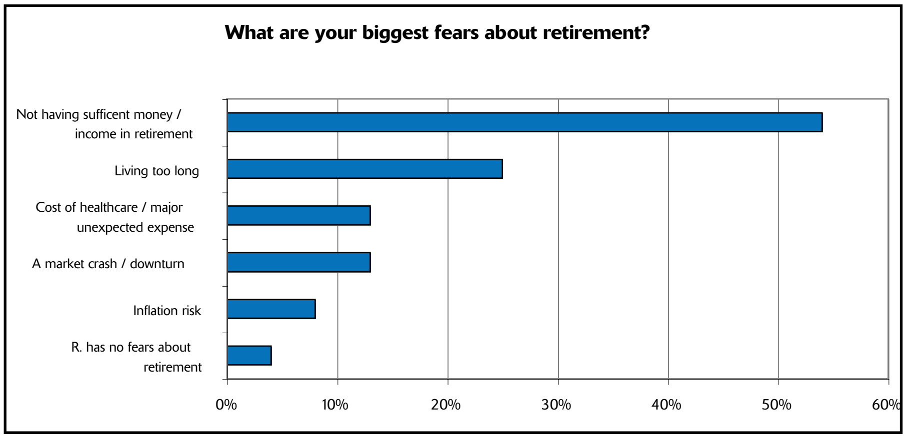
Source: What Happens When Living Life Today Gets in the Way of Financial Security Tomorrow, Prudential's Four Pillars of Retirement Series 2005.

Given this focus on meeting day-to-day needs and medium-term goals, six in ten (more among those with annual income under $50K) Americans believe themselves behind schedule in terms of saving for retirement. While this belief is very likely well-founded, as will be seen in the next section, most Americans have little understanding of their likely actual income requirements in retirement.

B. Ignorance of income requirements

A commonly shared worry of many Americans is the fear of outliving assets. As a 53-year-old teacher told The Center for Strategy Research in a recent interview:

> "Not having the funds required to live a decent lifestyle regardless of what causes it. I've had grandparents and friends that have been wards of the state, more or less, in their old age because they didn't have the funds and I don't want to be in that boat."



Source: Retirement Income Industry Association Conference, The Center for Strategy Research, 02/06.

Despite this fear, most are woefully ignorant of the income they will require to enjoy a comfortable retirement. And, unlike the teacher quoted above, many consumers underestimate their own longevity.

In addition, an increasing proportion of them expect to work "while retired". This trend is of growing interest to financial services providers and planners and is of enough complexity to be addressed in a separate paper. While this discussion is beyond the scope of this paper, a well-written and thought-provoking look at this issue can be found in Prudential's *Four Pillars of Retirement Series: What Happens When Living Life Today Gets in the Way of Financial Security Tomorrow.*

A more immediate challenge lies in Americans' lack of understanding of retirement income requirements. Three years ago, the MetLife Mature Market Institute commissioned a national poll to assess pre-retirees' understanding of key facts and concepts related to retirement income, including:

- Longevity and its impact
- Income, expenses, and inflation in retirement
- Annuities as a retirement planning tool
- Long-term care and protection of assets

On average, respondents answered only five of the fifteen questions correctly. The table below displays the respondent errors that are most relevant to this discussion, and additional commentary follows. As will be clear, realistic retirement income planning is hindered by misconcep-

Did You Know?

Realistic retirement income planning is hindered by misconceptions about risks associated with retirement, income needed in retirement, and the extent of long term care expenses.

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IQ Question	Correct Answer	% Correct	Leading (Incorrect) Answer	% Incorrect
What is the greatest financial risk facing retirees?	Longevity Risk	23%	Inflation	41%
An individual who reaches age 65 has a life expectancy of 85. What are the chances he or she will live beyond that age?	50%	37%	25%	59%
Considering a 65-year-old couple, what is the likelihood of one or both of them living to age 97?	25%	16%	10%	64%
How many centanarians, that is people 100 years of age or older, are there in the United States?	82,000	14%	27,000	44%
What percent of pre-retirement income do experts recommend retirees need to use as a benchmark for determining the amount of annual income needed in retirement?	70-80%	44%	40-50%	36%
To help ensure that an individual has enough money to make savings last his or her lifetime, experts are now recommending limiting the percent they withdraw from their savings each year to…	4%	27%	7%	34%
If an individual needed long term care today, what would be the average annual cost for a private room in a nursing home?	$61,000/yr	39%	$53,000/year	29%

Source: The MetLife Retirement Income IQ Test: Findings from the 2003 National Survey of American Pre-Retirees

Did You Know?

Only about two in ten (23%) understand that longevity is the greatest financial risk facing retirees; almost half (41%) believe it is inflation.

As can be seen from the above, some of the common respondent errors that pose significant challenges are:

- Only about two in ten (23%) respondents understand that longevity is the greatest financial risk facing retirees. Not only do respondents underestimate longevity, they do not view it as a financial risk. While inflation is indeed a significant financial risk, and was selected by 41% of respondents, it is not clear that respondents understand the connection between them.

- Not even four in ten (37%) respondents believe that an individual who reaches age 65 has a 50% chance to live beyond life expectancy of age 85.

  In fact, longevity is increasing: The average male aged 65 today has a 20-year life expectancy. People are living a significant number of years past the typical retirement age of 65. Respondents do not understand the concept of life expectancy being an average, with half the population living beyond that age and half never reaching that age.

- Less than two in ten (16%) of respondents believe there is a 25% chance that one or both members of a 65-year-old couple can live to age 97.

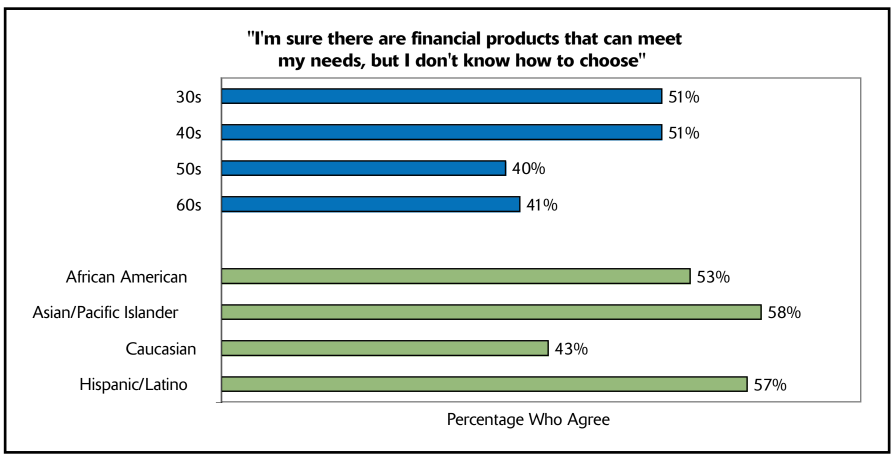
Did You Know?

Many Americans do not recognize the benefits of an annuity as an insurance product that provides a guaranteed income stream and are unclear about how annuities actually work.

- Only 14% of respondents know that there are 82,000 U.S. residents aged 100 or older.
- Less than half (44%) of respondents believe that a range of 70 to 80% of pre-retirement income should be used as a benchmark in determining the amount of annual income needed in retirement. More indicate they may under-prepare, by using 40-50% as their planning benchmark.
- Only about a quarter (27%) know that experts advise withdrawing a maximum of 4% annually from retirement savings to ensure that funds will last throughout a long retirement; a third believe that a 7% rate is supportable.
- Under half (39%) know how expensive a private room in a nursing home can be, over $60,000 a year.

C. Ignorance of products such as annuities

There are a number of ways to look at the issue of Americans' lack of understanding of the vast array of financial services products and services options available to them. On a general level, Americans understand that a wide variety of products exist, but are unsure as to how to go about selecting those that best meet their needs:



Source: What Happens When Living Life Today Gets in the Way of Financial Security Tomorrow, Prudential's Four Pillars of Retirement Series 2005

On a more specific level, products that provide the benefits of guaranteed lifelong retirement income, such as annuities, have been often maligned and most certainly misunderstood by consumers. Looking at the same MetLife Mature Market Institute poll mentioned previously, many Americans do not recognize the benefits of an annuity as an insurance product that provides a guaranteed income stream and are unclear about how annuities actually work.

IQ Question	Correct Answer	% Correct	Leading (Incorrect) Answer	% Incorrect
What does the word "deferred" refer to in the phrase "deferred annuity"?	Income	48%	Investment	43%
What happens if an individual buys an income annuity and dies before getting back the initial principal?	The insurance company uses the money to pay a benefit to those who live longer than anticipated.	11%	The beneficiaries always receive the full principal since this is an insurance product	50%
Which of the following is always true regarding income annuities?	There is no account balance, instead they pay an income for life.	30%	There is a specific age to withdraw money.	37%

Source: The MetLife Retirement Income IQ Test: Findings from the 2003 National Survey of American Pre-Retirees

Did You Know?

The greatest fear of currently employed baby boomers is running out of money.

- Under half (48%) of respondents know that "deferred" in the phrase "deferred annuity" refers to income, while a third believe it refers to investment.

- Only one in ten understand that insurance companies use the money to pay a benefit to those who live longer than anticipated, thus, very few are aware of the process if an individual buys an income annuity and dies before getting back the initial principal.

  Instead, nearly five times as many believe that because an annuity is an insurance product, the beneficiaries always receive the full principal.

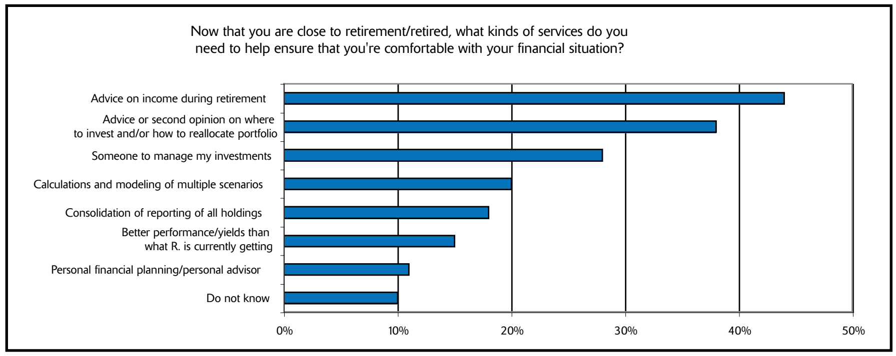
- While three in ten correctly state that it is always true that there is no account balance in an income annuity but that instead it pays an income for life, more (37%) believe there is a specific age to withdraw money.

In summary, in light of the considerable shift in assets from DB to DC plans, Americans' continued inability to save at adequate levels in those DC plans, a general level of ignorance about the amount of income required to ensure a comfortable retirement, and Americans' unfamiliarity with and/or misconceptions about a number of financial products, including annuities, it is not surprising, but is, in fact, disturbing, that only 2% of assets in DC plans have in fact been annuitized to date.

2. Investors' expressed needs for reliable and predictable income streams in retirement

Studies of the actively employed population continue to demonstrate that the greatest fear of currently employed baby boomers is running out of money; and one of their most pervasive needs is for a reliable, predictable income stream in retirement. For example, in a survey conducted among 325 moderately high net worth investors (investable assets over $500,000) in 2005, The Center for Strategy Research found that nearly half of those within a year of retirement (just prior to retired or recently retired) say that the financial service that would be of most help to them would be "advice on income during retirement". Again, a pharmacist summed it up well when he said:

"What I need are three things. One, to answer the question do I have enough to retire now or at some reasonable time, close time in the future. Two, how long would the money last. Would the money run out before me? Three, how to really allocate specifically to get the best shot at having it last."

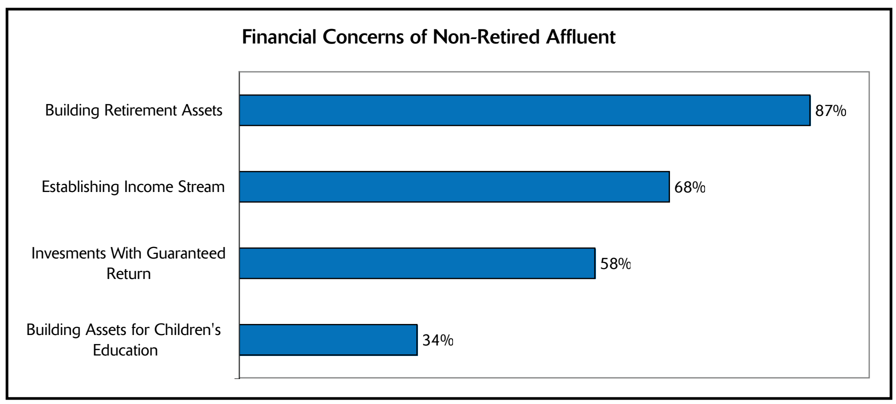


Source: Retirement Income Industry Association Conference, The Center for Strategy Research, 02/06.

Did You Know?

The top financial concern of non-retired affluent is building retirement assets.

This finding has been echoed in many other research studies, including recent surveys undertaken by the Spectrem group and the 2005 MetLife Retirement Income Decisions Study referenced earlier.



Source: Spectrem Group – Growing Need for Income Producing Invts: Facing Retirement Proactively, 2005
Source: Retirement Income Industry Association Conference, Merrill Lynch, 02/06.

And yet, in a concept test performed by The Center for Strategy Research during its 2005 research cited above, respondents preferred, to a significant extent, an annuity-type product that provided a reliable, predictable income stream in retirement, to retirement income planning with a financial planner[3]. CSR asked respondents to rate the attractiveness of the following two product/service options on a 7 point scale where 7 means "Very attractive" and 1 means "Very unattractive":

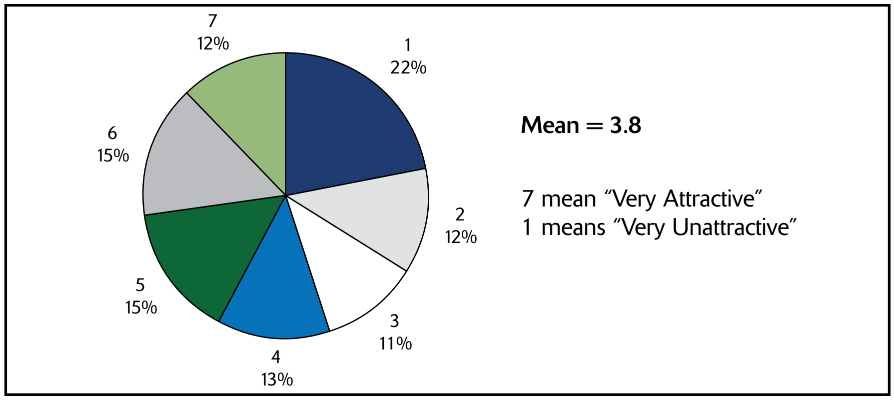
Two retirement product concepts compared:

"A financial planner helping you make financial decisions, and for investors who are retired or close to retirement, the firm will also make income strategy recommendations, meaning, how much money you might consider taking out of your portfolio to live on, based on such parameters as your age, any other income sources, broad tax effects, your expected lifetime in retirement, etc. so that you don't outlive your assets."

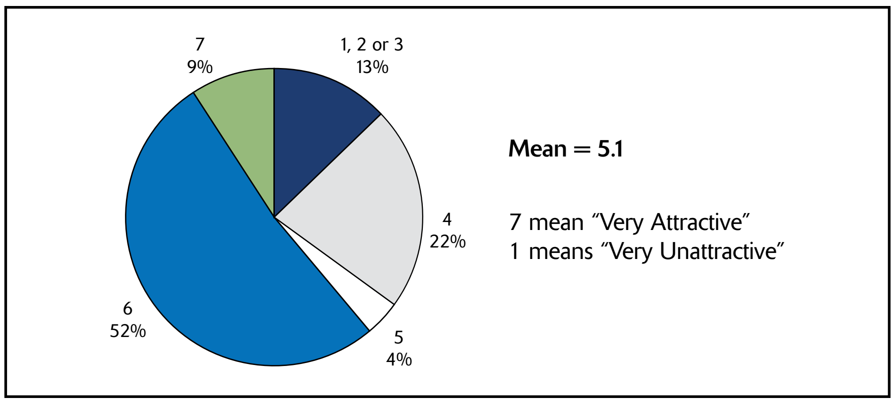
3 *Source: Retirement Income Industry Association Conference, Julie Brown, The Center for Strategy Research, 02/06.*

Did You Know?

Although most financial services providers focus retirement income planning efforts on advisory-based services/products, annuities and annuity-type products are the financial vehicle to provide the reliable, predictable income stream that consumers seek.



"This product guarantees lifetime benefits of $1 per month per unit upon maturity. If you accumulate 4,000 units of this product by the time they mature, you'd get $4,000 per month for life. You are not locked in to a contract requiring you to keep the units or to invest more. The product price may change, which will affect current value, but the end benefit is predetermined. These products are based on conservative investments and backed by credit insurance."



As we will explore in the next two sections, most financial services providers, and especially, investment services providers, are focusing their retirement income planning efforts on advisory-based services and products. And yet, annuities and annuity-type products are exactly the financial vehicle to provide the reliable, predictable income stream that consumers seek.

3. Challenges with current solutions

In Section One, we demonstrated that one of the reasons for the gap between pre-retirees' desire for predictable income and the current situation is their ignorance of products such as annuities. However, annuities as they are have historically been structured and offered have significant limitations, not the least of which is negative publicity. A Google search about annuities yielded not just over 15 million sites referencing them in some significant way, but also, several specific references to these vehicles that prove quite negative, including:

- TheStreet.com, July 05, Tracy Byrnes critically analyzes annuity fees in an article

- “Why variable annuities are no match for index funds” published by Scott Burns on MSN Money Central in June 2001.
- “Annuities: Just Say No” appeared in the July/August 1996 issue of Worth magazine.
- “Annuities as Poor Investments”, available at www.efmoody.com, discusses the challenges with annuities and displays questionable sales methods and decisions used in the past to promote these complicated products.

Did You Know?

A key benefit of an income annuity is that the owner knows, upon purchase, the amount of guaranteed income he or she will receive for life.

Many experts have strongly advocated that annuities are a poor choice for most consumers. Among their reasons:

1. Loss of all residual value in the case of premature death.

Because it is true that single-life annuities cease upon the contract owner’s death, they are not suitable for individuals in poor health interested in leaving assets to a surviving spouse or other heirs. However, anyone in good health with at least a reasonable chance of being among the many who live beyond age 65 can mitigate concerns about losing residual value through selecting joint-life options that pay benefits as long as either spouse is living. Other options such as certain period and refund annuities can offer additional protection for beneficiaries as well.

2. Income annuities are commonly confused with other kinds of annuities and are often believed to carry high fees.

In fact, income annuities have no hidden fees, and generally, the fees that are charged are consistent with many of the “loads” charged by popular mutual funds. A key benefit, however, is that the annuity’s owner knows, upon purchase, the guaranteed monthly income he or she will receive for life.

Recent innovations to annuities, including attractive group pricing for rollover products and built-in inflation protection, such as those currently being marketed by The Principal and other leading carriers, make them more ideal solutions at more competitive pricing.

Annuities also often provide a higher initial income than most experts recommend taking from a periodic withdrawal program (expert advice as discussed in Section One).

3. By investing in annuities, the investor has lost “control” over his or her assets.

Income annuities convert a single lump-sum amount into a stream of payments. In effect, the investor moves from controlling the invested assets to the income stream. In this manner, the investor becomes the controller of his or her income, because the annuity provides a benefit that can be relied upon on every month, unlike other investments in which it is uncertain how long withdrawals will last and how much withdrawals can "safely" be.

Of course, one downside is that, should an emergency arise, once annuitization starts, the principal can no longer be accessed. There is therefore an element of additional risk in investing all retirement assets in vehicles that render the principal inaccessible.

4. Annuities don't offer inflation protection.

Many annuity providers offer the ability to increase benefits by a fixed amount each year to help offset inflation, and some are beginning to offer benefit increases linked to the Consumer Price Index (CPI).

5. The tax treatment of annuities is far less favorable than the treatment of other investment vehicles.

This is, unfortunately, true at two levels: At the income level and at the total investment level. In the case of the former, the growth of an annuity is fully taxable as ordinary income, to any recipient (either the investor or his/her heirs, except for the portion that represents the amount of the original investment). This relates to the latter in that upon death, the annuity is treated as ordinary income to heirs, but, other, alternative investments, such as stock, are subject to zero income tax to heirs because of the stepped-up basis. In fact, if the recipient of annuity payments is in the highest ordinary income tax bracket, his or her income tax can be twice that which would have been occurred under normal capital gains taxation.

However, in the case of variable annuities, which act more like tax-deferred savings vehicles with insurance-like properties, taxes on earnings can be deferred, beneficiaries may be named to receive the balance remaining in the account on death, and the payments can be annuitized. And with qualified plans, the initial investment may be deducted from gross income, thereby also reducing current income tax.

6. Annuities are difficult for plan sponsors to offer and administer.

Today, less than a quarter of defined contribution plan sponsors offer an income annuity distribution option. While recent innovations in income annuities that have been designed and priced for the institutional market reduce the administrative and regulatory responsibilities placed on plan sponsors who offer them, several challenges remain. We will only list these challenges here, but for a detailed discussion of each, we refer the reader to *Bridging the Income Gap with Annuities: A Plan Sponsor's Guide*, offered by Principal Financial Services, Inc., an excellent primer on the topic:

Did You Know?

Employers can play an important role through their institutional buying power, ability to educate employees, and by choosing quality providers.

- **Fiduciary requirements**
- **Administrative requirements**
- **Service provider resistance**
- **Gender equity issues**
- **Minority equity issues:** Although this last point is not discussed at length in the Principal guide referenced above, Errold F. Moody Jr., makes a compelling argument in his article "Annuities as Poor Investments", that a similar challenge as gender equity issues exists for minorities when it comes to annuities. Whereas annuitization is based on statistics developed among all races, African-Americans have statistically shorter actuarial lifetimes than Caucasians, and Asian-Americans longer. If annuitization were based on statistics developed for specific races, then African-Americans would receive higher payouts, and Asian-Americans lower, to reflect differing life expectancies.

While the challenges to employers of offering annuities are important, it is possible to eliminate some of these disadvantages by offering annuities as a rollover option. This solution, as well as other opportunities for employers, will be explored in the next sections.

4. Why retirement income issues are important to employers, even though they appear to be most important to those no longer working.

What can employers do to help their employees retire with greater financial security? Given the increasingly important role that DC plans are playing in providing retirement income, the effort and resources that many DC plan sponsors have invested in helping employees save for retirement, and recent annuity product innovations, employers who sponsor defined contribution plans may wish to consider offering income annuities as an option either within the plan or as a rollover option. Employers can play an important role through their institutional buying power, ability to educate employees, and by choosing quality providers.

Offering different annuity options to address different needs of different employee demographics may help employees address many of the challenges discussed in previous sections of this paper. For example, offering variable annuities to **those who are still a few years from retirement** provides tax-favored options that are otherwise limited or unavailable to many consumers. A variable annuity is especially attractive to an above-average wage earner who is trying, perhaps late in his or her career, to make up for lost time in saving for retirement. While most experts agree that young people should fully fund IRA plans and any company 401(k) plans before turning to variable annuities, these vehicles do offer an attractive alternative for those who are maxing out on those tax-advantaged vehicles but have come to realize that their savings are still inadequate. While, unlike a 401(k) contribution, the funds invested in an annuity are not tax-advantaged, also unlike a 401(k) contribution, employees may put as much money into an annuity as they wish.

Did You Know?

By offering income annuity options to participants, plan sponsors can provide benefits that are valued by employees as they approach retirement.

By offering income annuity options to participants, plan sponsors can provide benefits that are valued by employees as they approach retirement. Annuities are the only financial instruments that offer retirees the benefits they seek:

- Payment amounts are guaranteed
- Payments don't run out
- Taxes are paid only as payments are received

The next section discusses what some quality providers are developing in order to meet the needs that have been discussed so far of employees and employers.

5. Solutions under development and in the market today.

A. Annuities as a Rollover Option

To avoid the fiduciary and administrative requirements mentioned in Section Three, some DC plan sponsors are offering favorably priced annuities to employees as a rollover option. These programs share several attributes; some of the more common include:

- Neither the plan sponsor nor trustee is a party to the annuity contract.
- The employee must take a distribution from the plan to purchase the annuity. To avoid tax on this distribution, the annuity must either be an Individual Retirement Annuity or be held within an Individual Retirement Account.

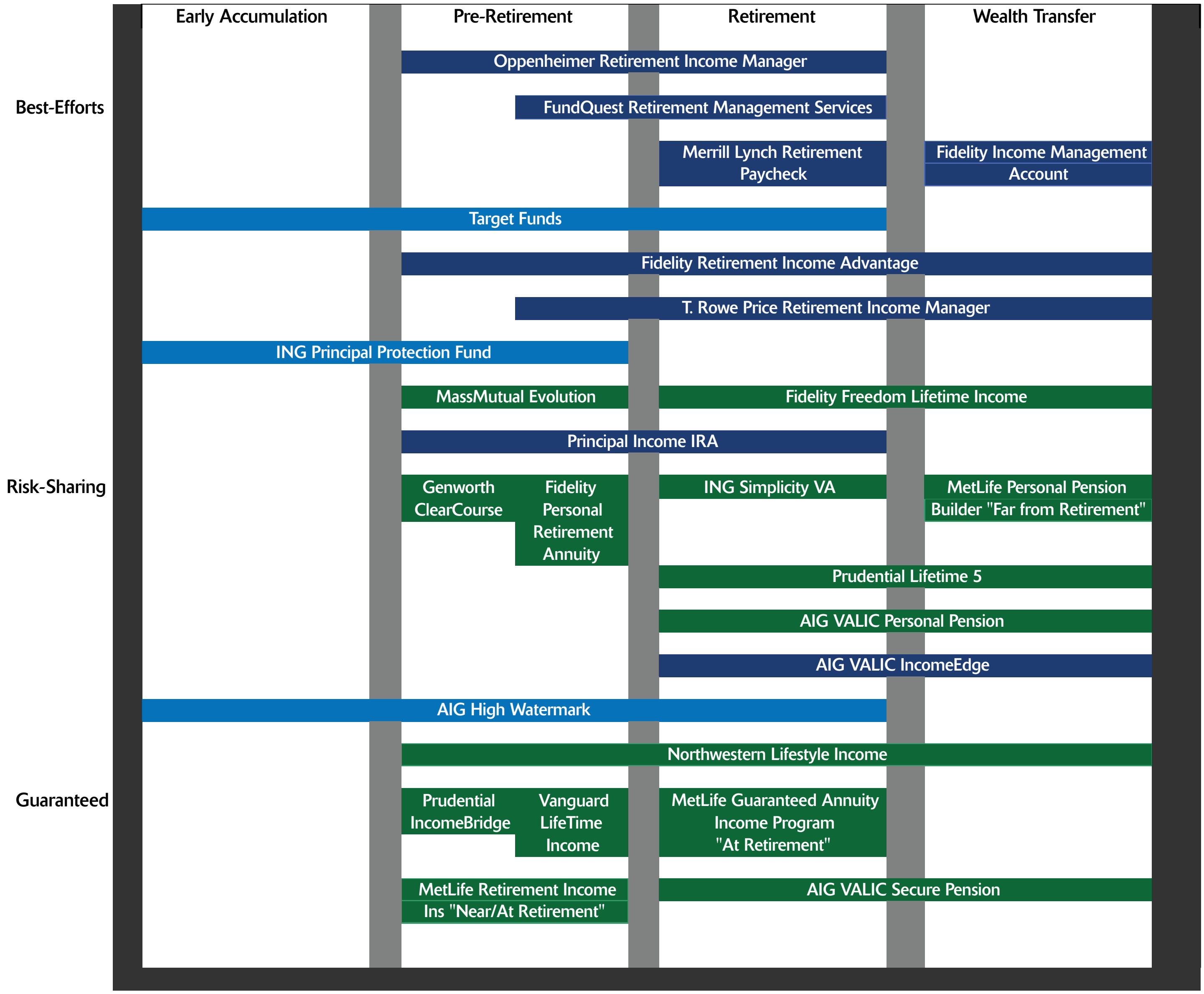
- The plan documents do not need to be amended to provide for the outside annuity option.

In addition to the benefit of group purchasing power of in-plan annuities, rollover annuities also have a number of features, a discussion of which is beyond the scope of this document. Again we refer the reader to *Bridging the Income Gap with Annuities: A Plan Sponsor's Guide*, offered by Principal Financial Services, Inc., as excellent source for more detail in this regard.

B. Annuities as an Investment Option (in whole or in part)

While the preceding discussion focused on the provision of institutionally priced annuities to employees as a rollover option, many investment providers are offering products that include variable annuities as part of the DC offer to those not yet in retirement, or, in some way, "compete" with annuities:

Retirement Income-Oriented Products Offered or In Development



GREEN = Insurance Products   DARK BLUE = Process   LIGHT BLUE = Investment Products

Source: Retirement Income Industry Association Conference, Merrill Lynch, 02/06.

As a detailed examination of each of the products offered by each of the companies listed in the preceding chart is beyond the scope of this paper, please allow us to review some of the more interesting and/or well-developed options available today:

Fidelity Investments[4] :

Like many of the services provided by investment services firms and asset managers, The Fidelity ***Income Management Account*** is currently, primarily, a planning service, but is more automated than others (see T. Rowe Price's offering, below). It involves using Fidelity's Retirement Income Planner tool to create a Plan of Record, which is then used to monitor the investor's ongoing financial position and manage his or her day-to-day financial activity.

The Income Management Account provides:

- A comprehensive view of the investor's financial situation, including Fidelity and non-Fidelity assets
- An online Monitor and Income Management Report, which allows the investor to track asset allocation, spending, and withdrawal trends, and compare actual activity with what was planned
- Cash management features to automate deposits and pay expenses if desired
- Online monitoring capabilities and reports, which provides status messages that interpret key measures and suggests actions to help effectively manage finances
- Alerts about important financial events and deadlines

According to Fidelity spokespeople, the company is continuing to develop this product, and future phases of it will offer:

- Planning tools that will more effectively incorporate home equity, including reverse mortgages
- Greater integration of insurance (long term care, longevity, MediGap, variable annuities) solutions
- Greater integration of other financial vehicles, such as asset allocation funds, bond ladders, and lifecycle funds
- A better understanding of behavioral finance
- Better trade-off analyses

T. Rowe Price Investment Associates, Inc[5] :

T. Rowe Price's Retirement Income Manager has been widely acclaimed since its development in the mid-1990s. One of the first of its kind to market, its offer is consistent with Fidelity's Income Management Account in that it is primarily a planning service. While it also involves creating a plan, which is then used to monitor the investor's ongoing financial position, T. Rowe Price's service features at least one meeting with an Advisory Counselor, who is supported by a team of Certified Financial Planners. While some aspects of it are more limited (T. Rowe specifically states that the service is most appropriate for those within two years of retirement or already retired), it also has other benefits:

4 Source: The Retirement Income Industry Association as provided by Steve Deschenes, Fidelity Investments, and material on Fidelity's Web site

5 Source: Material on T. Rowe Price's Web site, and as provided to The Center for Strategy Research, Inc.

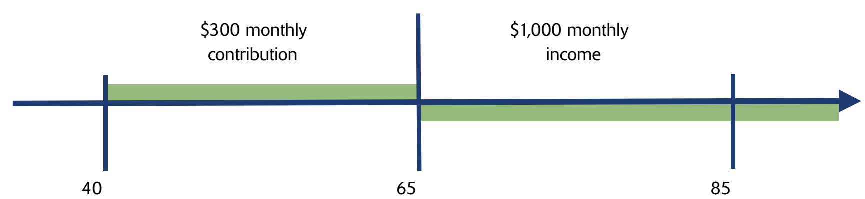
- Advanced modeling strategies, including “Monte Carlo” and other prediction techniques
- As mentioned, personalized one-on-one consultations with experienced Advisory Counselors that develop a plan to fit individual needs and investing preferences
- A comprehensive view of the investor’s financial situation, including T. Rowe and non-T. Rowe assets
- Ongoing (at least annual) monitoring of expenses, asset allocation, and investment balances, along with recommendations to bring spending and allocation more into line with the original plan in case of changes

A comparison of the two planning services offered by these two investment company behemoths demonstrates that the former, Fidelity, is taking an automated approach to retirement income planning, using online tools to their greatest capabilities and promoting the benefits of online planning. T. Rowe Price’s approach, on the other hand, stresses the personalized element of meetings and ongoing conversations with professional advisors, and promotes the individualized, customized approach that is a key benefit of this personalized approach.

MetLife[6] :

MetLife has developed The Personal Pension Builder, an investment option within a DC plan. It can be funded with direct participant contribution allocations or with transfers from other investment options. All future income amounts are accumulated until payout is requested, and its benefits include:

Personal Pension Builder: $1,000 monthly income



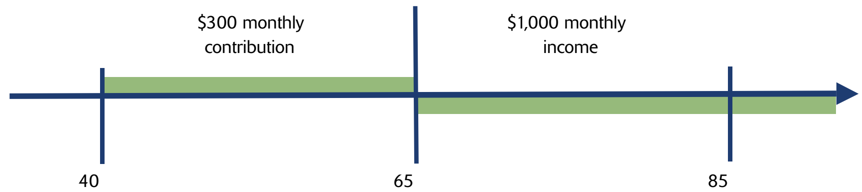
Contribution based on current rates:	$300.05 per month *
Contribution based on guaranteed rates:	$564.97 per month

* Based on purchase rates in effect on Jan. 26, 2005. Assumes a male age 40 contributes $300 per month until a straight life annuity is elected at age 65.

- A death benefit
- Liquidity options
- A choice of income payment options.

6 *Source: Retirement Income Industry Association Conference, Keith Hylind, MetLife, 02/06.*

Personal Pension Builder: $1,000 monthly income



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Contribution based on guaranteed rates: $564.97 per month

* Based on purchase rates in effect on Jan. 26, 2005. Assumes a male age 40 contributes $300 per month until a straight life annuity is elected at age 65.

Northwestern Mutual[7] :

Northwestern's approach to this challenge is unique (in fact, has patents pending). Its Lifestyle Income Approach focuses on the fact that the "expert advice" of needing 70% of pre-retirement income to guarantee a comfortable retirement and a 4% withdrawal per year ignores a harsh reality of retirement: that for nearly everyone, their demands from retirement are different at different points in their lives.

Building off the famous AARP characterization of the three decades of retirement:

- Ages 65 to 75: The "go-go" years
- Ages 75 to 85: The "slow-go" years
- Ages 85-plus: The "no-go" years,

Northwestern argues that the ideal retirement income plans are those that generate more income in early retirement, when retirees seek to take advantage of new spare time and general good health to engage in activities such as travel that often require surplus funds, and decrease over time to match the generally reducing financial requirements of the more sedentary lifestyles of ageing seniors.

Lifestyle Income Approach

- **Start With Risk-based Needs First:** cover LTC, legacy & health premiums; then work "backwards"
- **Estimate and fund income beyond age 95** to minimize risk of outliving assets
- **Defer annuity decision to age 85** to leverage mortality premium
- Fund consecutive "income bridges" from 65 to 85 to create stream of income in place of paycheck
- Age 50-65, position rollover assets to fund "Income Placeholder" with Annuity or Longevity Insurance.

7 *Source: Retirement Income Industry Association Conference, Charles Robinson, Northwestern Mutual, 02/06.*

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