Institutional Investment Advisors and Consultants Forum: *Developing Expertise and Insights*

MAKING THE CASE

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June 9, 2015

Institutional Retirement Income Council

Innovation, Communication, Evaluation

What is wrong with the status quo?

Can we really save more?

- Poverty rates in 1974:
  - Age 18 and under 15.4%
  - Age 65 and older: 14.6%
- Poverty rates in 2013*:
  - Age 18 and under 19.9%
  - Age 65 and older: 9.5%

* Most recent data available

Source: US Census Bureau

Today, children live in poverty at twice the rate as seniors!!

Selected Key Risks for DC Participants

- Behavioral
- Timing
- Sequencing
- Certainty

Behavioral risk

Illustration of Timing Risk

20 Years of S&P 500 Annual Returns w/o dividends

Year	Return	*Year*	Return	*Year*	Return	*Year*	Return
1995	34.11	*2000*	-10.14	*2005*	3.00	*2010*	12.78
1996	20.26	*2001*	-13.04	*2006*	13.62	*2011*	0.00
1997	31.01	*2002*	-23.27	*2007*	3.53	*2012*	13.41
1998	26.67	*2003*	26.38	*2008*	-38.49	*2013*	29.60
1999	19.53	*2004*	8.99	*2009*	23.45	*2014*	11.39

Ending balance assuming initial balance of $100,000 and annual withdrawals of $10,000							
	$217,141		$29,825		$46,069		$107,860

Illustration of Sequencing Risk

Assuming beginning balance of $100,000 & annual withdrawals of $10,000
3 highest and 3 lowest returns of the S&P 500 during past 20 years

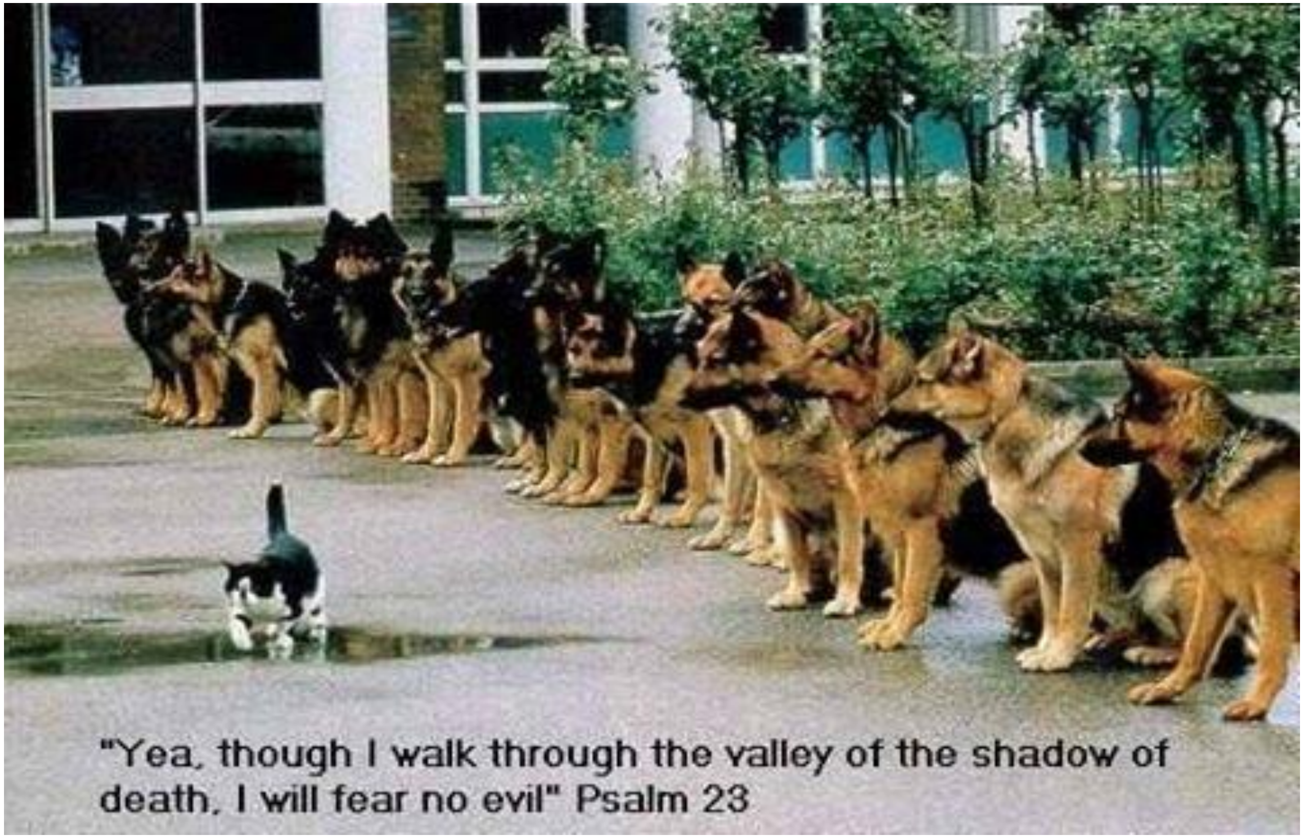
Buy & hold, under either scenario = $93,332

Relatively Lucky Person		
Year	Return	Balance
		$100,000
1995	34.11	120,699
1997	31.01	145,027
2013	29.60	174,995
2001	-13.04	143,479
2002	-23.37	102,285
2008	-38.49	56,765

Very Unlucky Person		
Year	Return	Balance
		$100,000
2008	-38.49	55,359
2002	-23.37	34,759
2001	-13.04	21,530
2013	29.60	14,943
1997	31.01	6,476
1995	34.11	-4,726

Certainty

What does it cost? What is it worth? To whom?



Certainty (continued)

What does it cost? What is it worth? To whom?

- Plan Sponsors
  - LDI strategies “cost” 200 bps => reduced expectations for investment returns
- Participants
  - Capital preservation funds provide returns below the rate of inflation

And now…

A word from our (plan) sponsor!

Reasons NOT to adopt a retirement income solution

- Concern # 1 – Fiduciary risk associated with selecting a solution
  - An insured product
  - A product with a long time horizon
- Concern #2 – Fiduciary risk associated with lack of choices
  - E.g. recordkeeper only supports one solution
- Concern # 3 – Terminating the product
  - To change recordkeepers
  - To change solutions
  - Due to concerns with product fees/guarantees/structure, etc.
- Concern # 4 – Low utilization at the participant level
- Concern # 5 – Lack of employee understanding
- Concern # 6 - Costs

Reasons TO adopt a retirement income solution

- Argument # 1 – Enable employees to retire when they <u>should</u> retire
- Argument # 2 – Increase value of benefit without increasing contributions
- Argument # 3 – Improve the economics of the plan by retaining account balances
- Argument # 4 – Reinforce commitment to employee financial wellness
- Argument # 5 – Differentiate employee benefit program for attraction and retention purposes
- Argument # 6 – Address concerns raised by key people