

The slide features a dark grey background with a yellow diagonal stripe. On the left, there is a black and white photograph of a modern skyscraper. The text is in yellow and white.

Retirement 20/20 Conference

Optimal strategies for distribution of retirement income resources

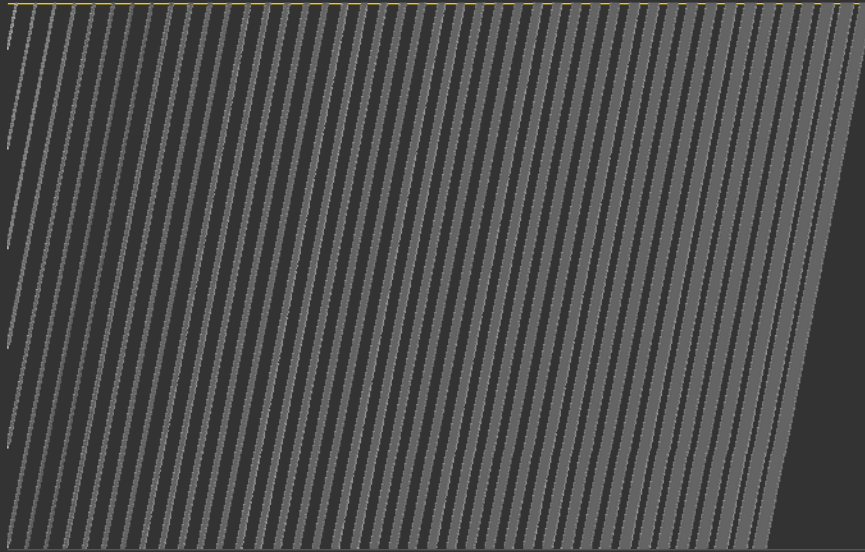
November 17, 2008

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The middle-market retirement problem



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The middle-market retirement problem

- ▶ Almost three out of five new middle-income retirees will outlive their financial assets if they attempt to maintain their pre-retirement standard of living
- ▶ Middle-income Americans entering retirement now will have to reduce their standard of living by an average of 24% to minimize the likelihood of outliving their financial assets
- ▶ Those Americans seven years from retirement will have to reduce their standard of living by an average of 37%

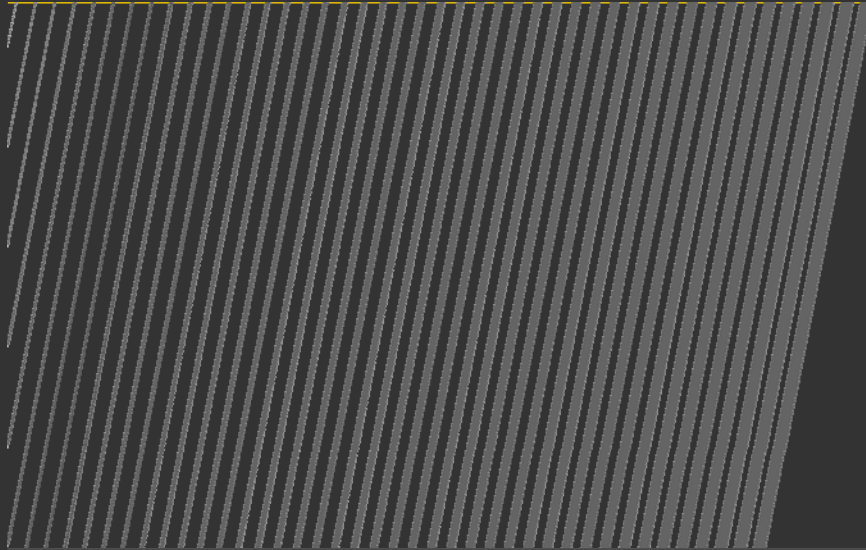
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Typical strategies for distributing retirement income resources

Part of the problem for middle-income Americans is the current typical approaches to distributing retirement income resources:

- ▶ Straight asset allocation with systematic withdrawals
- ▶ Single product strategies
- ▶ Bucket strategies

Advanced strategy for distributing retirement income resources



Advanced strategy for distributing retirement income resources

Addresses

All resources

- ▶ Financial assets
- ▶ Social security
- ▶ Pensions
- ▶ Home equity

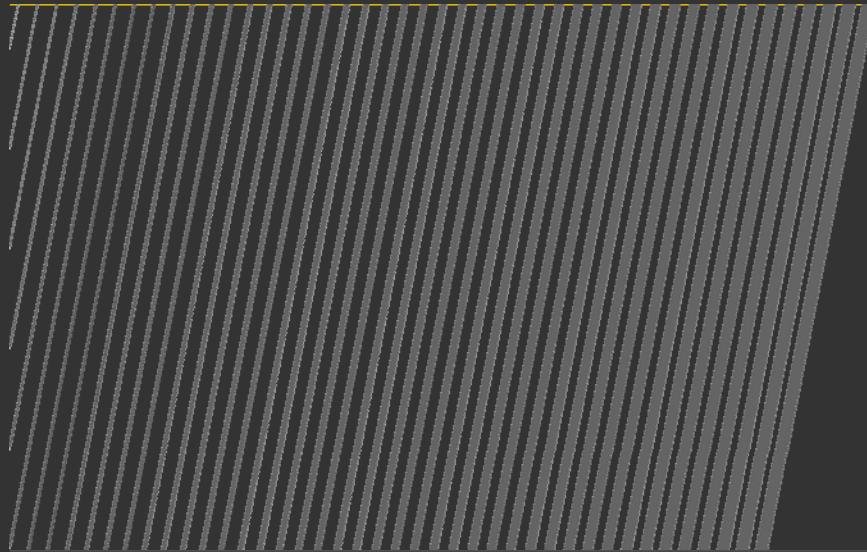
All needs

- ▶ Bequest amounts
- ▶ Income objective
- ▶ Liquidity needs
- ▶ Health care expenditures

All risks

- ▶ Market returns
- ▶ Inflation
- ▶ Mortality
- ▶ Morbidity

Case study



Case study – set resources

Age, gender, marital status	65-year old male 65-year old female Married
Savings	\$500,000
Pension plans	None
Social security	\$24,000 per year (split \$12,000 each)
Home equity	\$100,000

Case study – set needs

Set financial goals and objectives:

- ▶ Income security – 95% success rate
- ▶ Bequest objective – \$600,000 (100% of starting wealth)
- ▶ Liquidity objective – \$50,000 cash account

Case study – set risks

Market returns and inflation

- ▶ Stochastic modeling

Mortality and morbidity

- ▶ Utilize Monte Carlo simulation
 - ▶ Introduces volatility of all of the risks
 - ▶ Provides a range of results

Creates a wealth of knowledge for the customer

Output of financial measures

Case study – typical approach

Typical approach - straight asset allocation with systematic withdrawal

- ▶ Assume 60%/40% mix of equities/bonds
- ▶ Produces **\$20,800** of after-tax annual income
- ▶ Compare this amount to the \$24,000 of Social Security income

Case study – advanced approach

Advanced approach

- ▶ Mutual funds – 50%
 - ▶ Mix of 60%/40% in equities/bonds
- ▶ Single premium immediate annuity – 40%
- ▶ Longevity insurance – 10%
- ▶ Long Term Care insurance premiums - \$4,550 per year
- ▶ Life Insurance premiums - \$9,600 per year

- ▶ Produces **\$30,400** of after-tax annual income
 - ▶ From this income, the couple has paid their insurance premiums and still receives 50% more than the typical strategy.

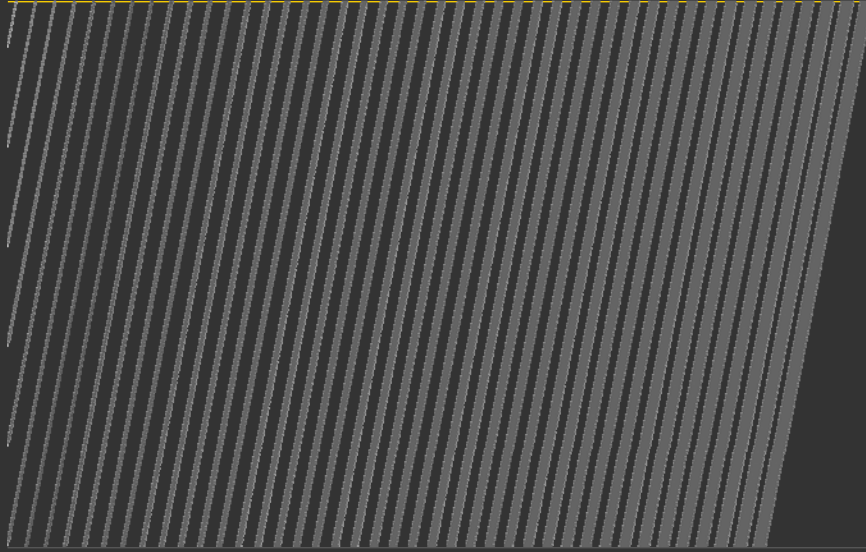
Is the optimal strategy the only strategy?

Comparison of approaches



- ▶ Green lines are the typical approach - blue lines are the advanced approach

Conclusion



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Conclusions

- ▶ There are ways to produce better answers than today's methods
- ▶ There is more than "one" optimal strategy
- ▶ These types of advanced approaches make people more comfortable

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