

**Money Management Institute
2005 Annual Conference**

Topics: Breakout Session II: Packaging Retirement Solutions

Presented by Darlene DeRemer

March 30, 2005

AGENDA

- I. Overview by Darlene DeRemer
“Looming Retirement Crisis”
- I. 1st Speaker: robert Burke, Vice President & Director, Nuveen Wealth Management Services
Topic: How to Market to Pre-Retirees and Retiree Segments
- III. 2nd Speaker: Darlene DeRemer, Partner, Grail Partners LLC
Topic: Packaged Retirement Solutions – Accumulation Phase
- IV. 3rd Speaker: Westley V. Thompson, President & CEO, Lincoln Financial Distributor
Topic: Income for Life
- V. Questions

Topics: Overview presented by Darlene DeRemer
“Looming Retirement Crisis”

The IRA Rollover Market is A Huge, but Challenging Opportunity

Looking
Ahead

- Successful IRA providers need to improve their communications, hone marketing strategies and work with financial advisors.
 - ❑ Retirement plan participants rolled \$201 billion over into IRAs last year
 - ❑ In 2010 that number will swell to \$467 billion
- The bulk of the money will come from retiring workers. The average IRA rollover balance for retirees this year is \$176,000, compared to an average balance of \$53,000 among job changers
- Most rollover assets currently go to other firms. Providers only retain 23% of participants and 21% of assets. Just 18% of participants with 401(k) balances of \$250,000 or more stayed with their plan provider!
- Simple marketing and communications efforts highlighting process consistency could substantially boost asset retention
- Advisors have a significant influence on investors: 54% of participants who rolled over into IRAs made their decision based on information from a financial planner, stockbroker, registered investment advisor or insurance agent.

Investor Lifecycle Affects Financial Product Needs

Looking Ahead

	Accumulation	Preservation	Retirement Income	Wealth Transfer
Description	<ul style="list-style-type: none"> Working age up to mid 50s 	<ul style="list-style-type: none"> Mid 50s until retirement 	<ul style="list-style-type: none"> Retirement years 	<ul style="list-style-type: none"> Generational/spousal transfer
Goals	<ul style="list-style-type: none"> Focus almost solely on managing/growing assets Modular or needs-based planning (education planning, home purchases, etc) 	<ul style="list-style-type: none"> Gains need to be preserved Concentrated stock positions need to be hedged Asset protection is primary concern 	<ul style="list-style-type: none"> Draw-down of accumulated assets to generate income Preparation for final years and wealth transfer 	<ul style="list-style-type: none"> Drawing on health care provisions Gifting, bequeathing remaining wealth
Products & Vehicles Used	<ul style="list-style-type: none"> Funds, separate accounts, ETFs, etc IRA, 401(k), 529 Managed accounts in DC 	<ul style="list-style-type: none"> Fixed income instruments Non-correlated structured products, hedge FOFs 	<ul style="list-style-type: none"> Annuities (fixed, immediate, variable) Fixed income Insurance, LTC Charitable remainder trusts 	<ul style="list-style-type: none"> Long-term care Insurance products for tax-advantaged wealth transfer

Source: Grail Partners LLC

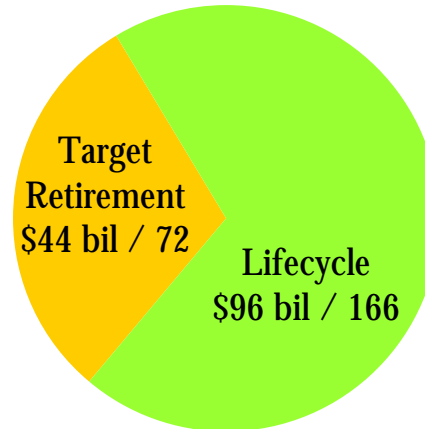
**Introduction: Robert Burke, Vice President & Director Nuveen
Wealth Management Services**

**Topic: How to Market to Pre-Retirees and Retiree
Segments**

Topics: Packaged Retirement Solutions – Accumulation Phase
Presented by Darlene DeRemer, Partner, Grail Partners LLC

Package Retirement Solutions

- Lifecycle/pre-mixed funds and fund-of-funds are growing in importance and they are helping eliminate small average account size which has become a problem because of the use of asset allocation models. Furthermore, the lifecycle funds will be even more important if Congress adopts LSA, RSA and ERSA.



- The post-accumulation/retirement income phase will become more the focus over the next five to ten years and having access to a variable insurance product platform will be important
 - Insurance companies are offering a series of innovative/new generation of deferred annuities that convert to retirement income/guaranteed protection products
 - GE Retirement Answer
 - Principal
 - Prudential “Lifetime Five” SM
 - MetLife
 - Lincoln “Income for Life” SM

Some Examples of Packaged Retirement Accumulation Solutions

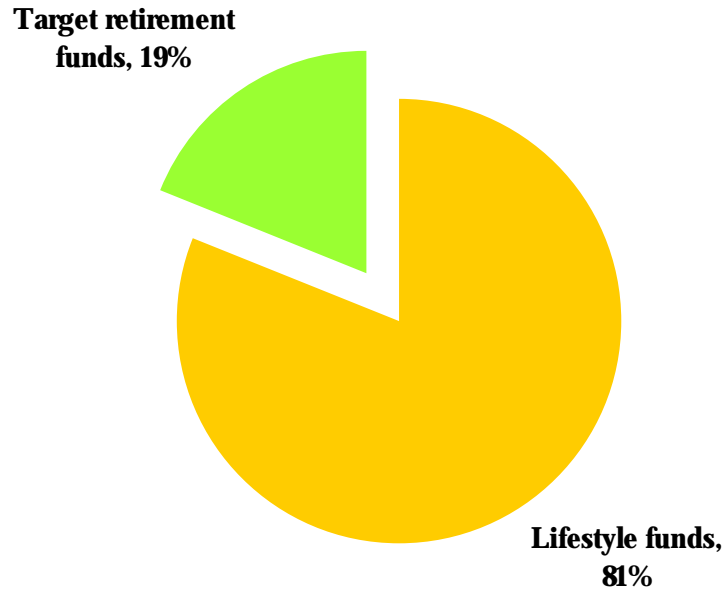
Target Retirement Funds

- Standardized approach to investing. Time-horizon drives decision
- Risk and return objectives change over course of investors' lifetime
- No investor input required – fund participant
- Simple alternative to advise
- Systematic incremental asset allocation changes over time

Life-Style Funds

- Enables investors to invest in a fund that matches their risk tolerance
- Risk and return objectives of the funds remain constant
- Investor determines risk tolerance through an assessment
- More individualized approach – volatility has greater impact on decision making
- Requires significant asset allocation changes at points in time

Types of Lifecycle Funds Offered by 401(k) Plans



- Recently, Fidelity reported that its analysis of 12,806 employer-sponsored retirement plans it administered showed that target retirement funds were the most rapidly adopted automatic plan feature during 2004, with approximately 1,200 employers going in that direction. Plan sponsor demands for Fidelity's lifestyle and target retirement funds doubled between 2000 and 2003, with 75% of plans now offering at least one of the funds and 6%, or 632 plans, selecting a lifestyle or target retirement fund as their default investment option.

Source: Hewitt Associates and Fidelity Retirement Services Corp.

Top Providers of Lifecycle Funds

(US \$ Bil)

Fidelity	\$ 47.7
Vanguard	24.0
Frank Russell	5.8
T. Rowe Price	5.6
JP Morgan	5.4
Washington Mutual	5.1
Putnam	4.7
Transamerica	3.9
IDEX	3.9
MFS	2.9

Source: Lipper Analytical Services, 12/04

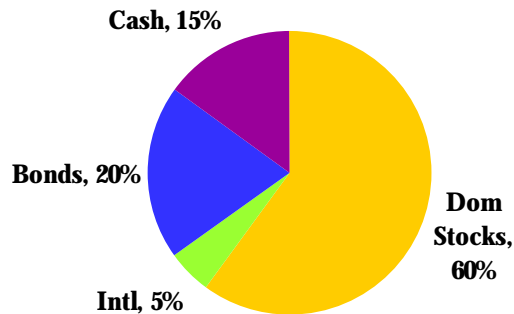
Recent Fund-of-Fund Innovations For Retirement:

- Vanguard
 - New series of actively managed fund-of-funds investing in equities – “Diversified Equity Fund”
- SunAmerica
 - New series of fund-of-funds for a variable annuity with Ibbotson Associates – “New Seasons Variable Annuity”
 - Four new managed allocation portfolios: offers multiple layers of diversification, asset class investment style and individual money management talent
- Schwab’s Managed Retirement Trust Fund - Income
 - A commingled trust pool which invests in underlying funds
- Mellon HR
 - New series of customized lifecycle funds

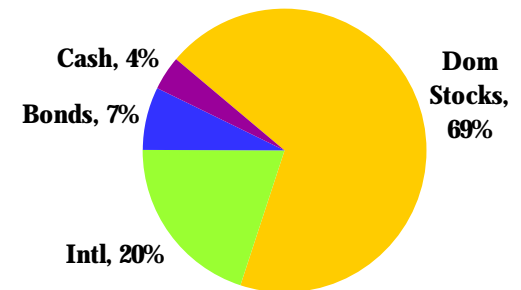
Drawbacks of Lifecycle Funds and Participant Inertia have Created Opportunities For Other Product Innovations

- Lack of customization, i.e., one size fits all
 - Fallacy that all people retiring in 2010 have same risk/return needs
- Not as flexible as necessary
 - Limited to the plan options already in place
 - Performance variability
- Asset allocation dispersion
 - Depending upon the algorithms employed by each sponsor of target retirement funds, the risk profile can vary significantly
 - For example:

Wells Fargo - Outlook 2030



T. Rowe Price - Outlook 2030



Is Providing Discretionary Money Management, For a Fee, to Defined Contribution Participants A Better Mouse Trap?

Industry Developments

- As the demand for advice and systematized investment planning processes have driven managed account growth in the retail market, so now is the concept of fee-based advice taking hold in the 401(k) market
- Thanks to an ERISA interpretation from the DoL—SunAmerica ruling in 2001—retirement providers can provide discretionary advice, and charge for it, in retirement accounts
- Most successful players in this space are those that offer online advice engines targeting the mid- and large-plan market
 - Financial Engines has raised more than \$1bn in AUM since the launch of its Personal Asset Manager product in 2004, and has strong momentum
 - Other providers include Morningstar, Guided Choice, Fidelity, Wachovia, AIG, and others
- With varying degrees of functionality and customization, most providers enable mutual fund asset allocation decisions, and many assume automatic rebalancing and allocation shifts
- Traditional managed account TAMP players, especially those with strong technology and experience with mutual fund asset allocation, could be well positioned
 - Access has to come through TPAs, other DC providers
 - Operational scale and processing is no small barrier to entry
 - Investnet PMC has recently announced intentions to target this market, others have designs

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**Introduction: Westley V. Thompson, President, Lincoln Financial
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Topic: “Income For Life”
