

Strategy for a New Millennium: Capturing the Retirement Market

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Boston, August 2005**

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MetLife Group**

Summary of Today's Dialogue

- **Opportunity of a Lifetime**
- **Financial Drivers: Risks in Retirement**
- **Insurance: The Conflicted Solution**
- **Innovation in Retirement Income Solutions**
- **Marketing & Distribution**



The Opportunity of A Lifetime



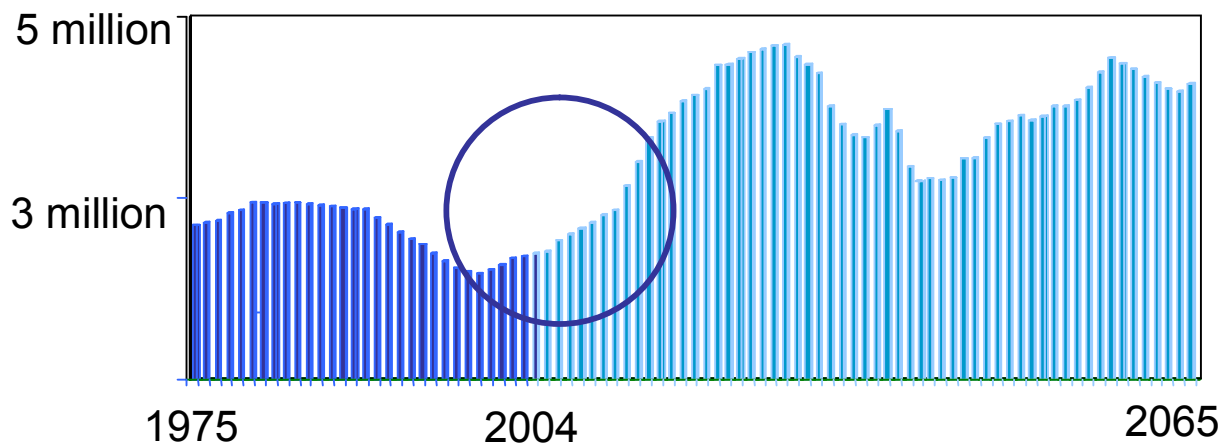
Retirement Income

Retirement Income

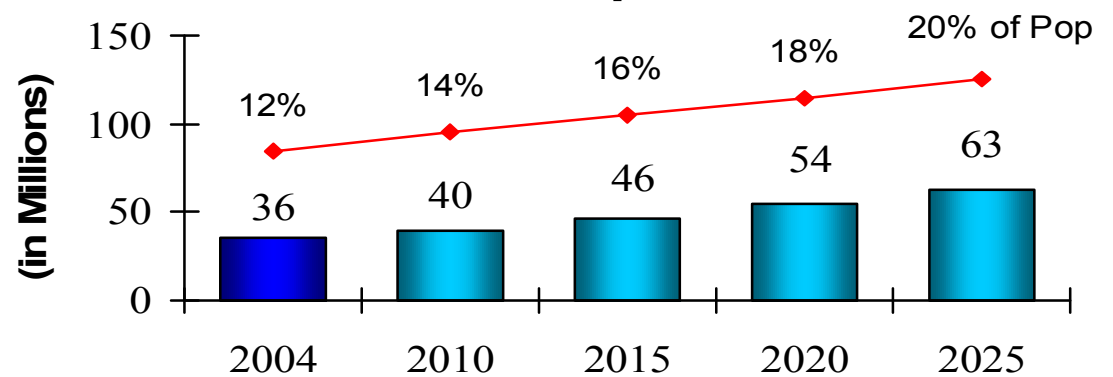
Retirement Income

Demographics: The Age Wave (Tsunami)

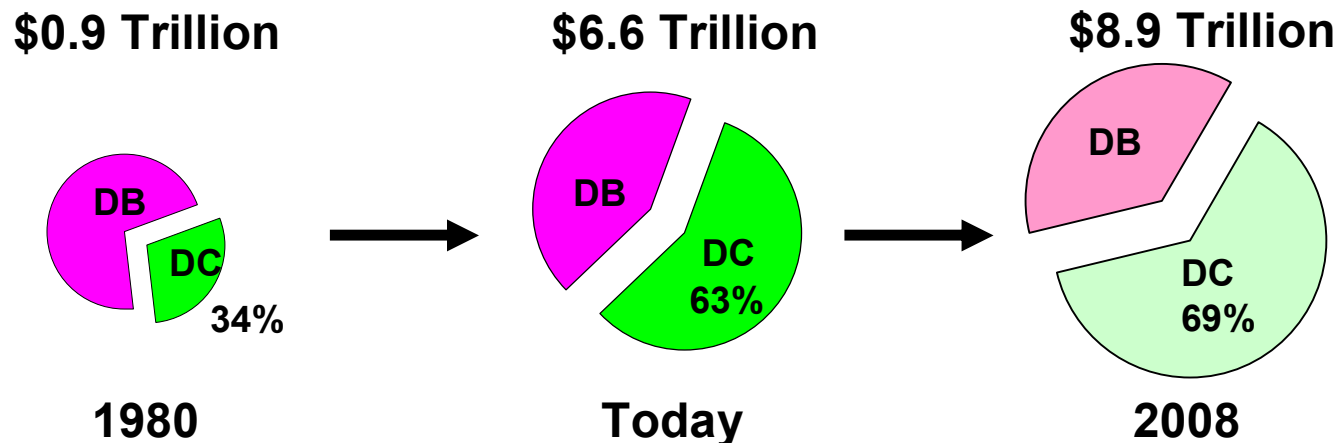
Population Reaching 65



65+ Population



Financial Demographics



- **Defined Benefit coverage has declined today compared to 1980**
- **Defined Contribution plans are inadequate for income solutions:**
 - How does a dollar today translate to income tomorrow?
 - No income orientation - only 2% annuitize
 - 25% of 401(k) eligible employees don't contribute



Financial Drivers: Risks in Retirement

The Financial Challenges in Retirement




- **Inflation Risk**
- **Longevity Risk**
- **Withdrawal Risk**
 - **Withdrawal Rates**
 - **Asset Allocation**
- **Health Care Costs***

* Assume that Long Term Care addresses this risk



Inflation Risk Well Understood?

Inflation: Reduces Purchasing Power!

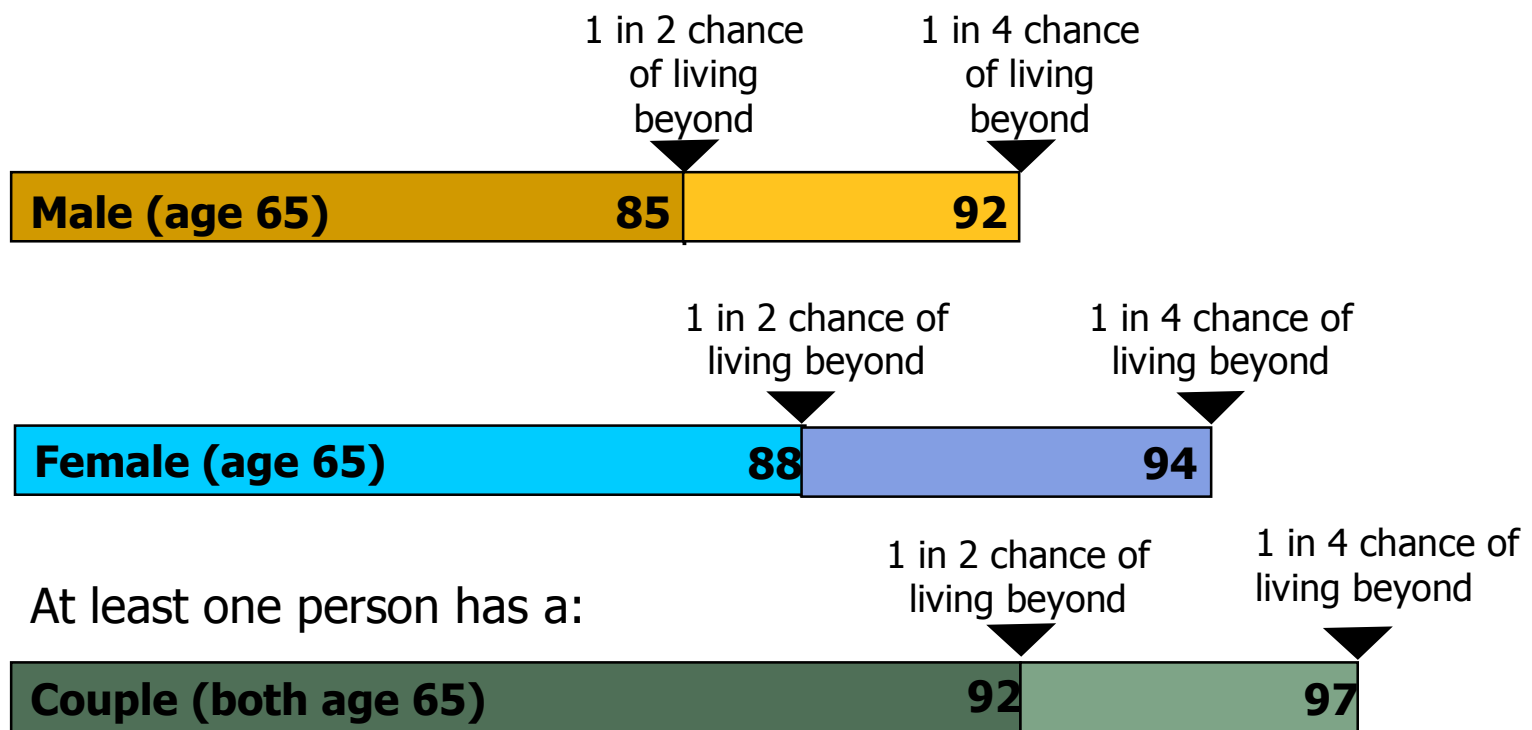
<u>Year</u>		<u>3.2%*</u>
Today		\$1.00
10 Years		0.72 ¢
20 Years		0.52 ¢
30 Years		0.38 ¢

*Avg Annual Rate of Inflation 1985-2000
Source: Ibbotson Associates



Longevity Risk Misunderstood

Life Expectancy Often Underestimated





Withdrawal Risk Misunderstood

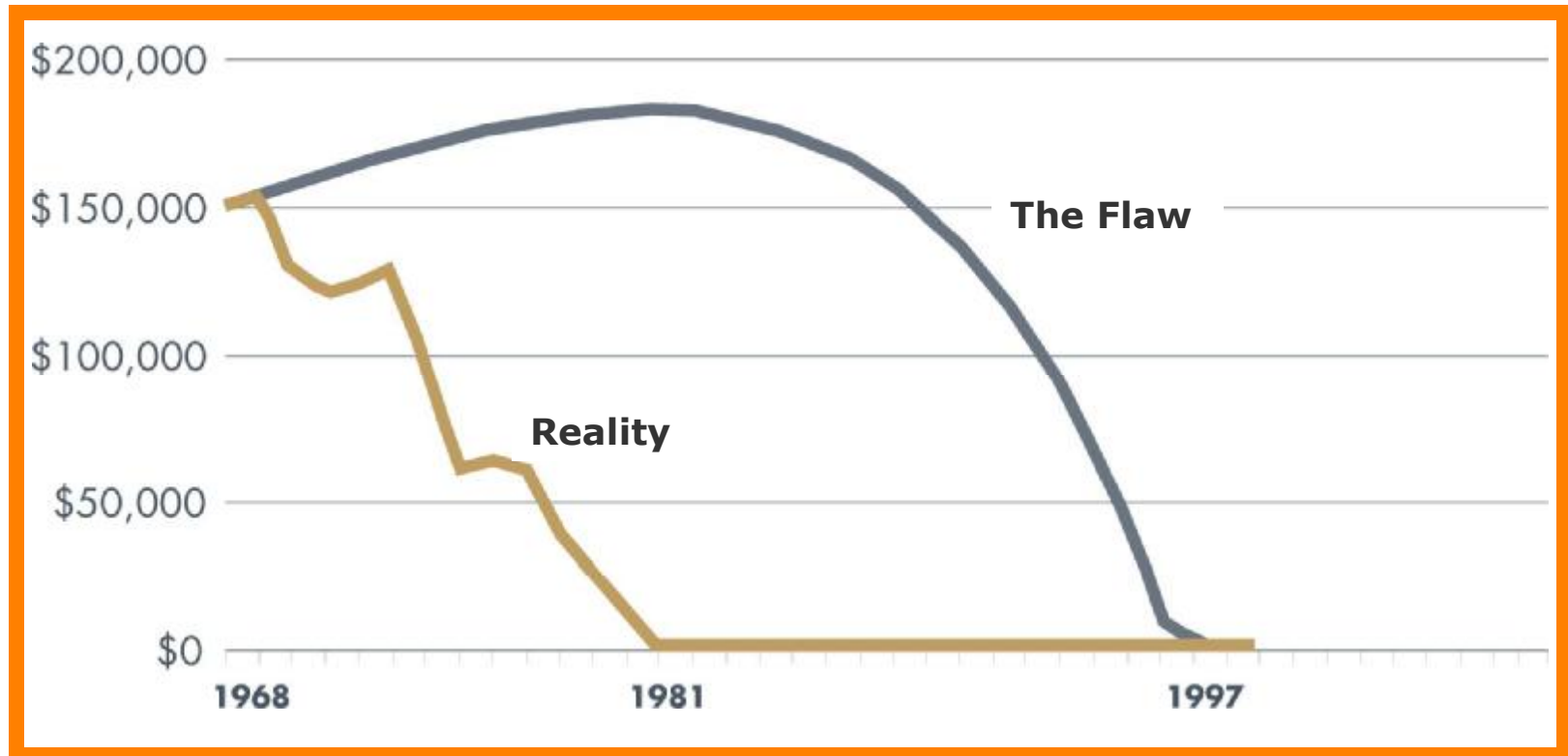
Withdrawal Risk: Simplistic View

- **Scenario:**

- **Retirement Assets: \$150,000**
- **Required Income: \$1,000/month**
- **Annual Withdrawal Increase: 3.5%**
- **From 1968 to 1998 the average return of the S&P 500 was 12%**
- **Expected Market Performance: 12%**

Based on the above ... Your Income should last 30 years.

Withdrawal Risk: The Reality – A History Lesson



If the investor began in 1968, the actual market performance in association with the inflation adjusted withdrawals, resulted in total depletion by 1981!

Source: "The Road to Retirement Security" p. 4 E0309GDL8(0904)MLIC-LD



Insurance: The Conflicted Solution

“If We Build It, Will They Come?”

The Retiree Perception

- **Retirees vote with their feet!**
- **Overwhelming solution is systematic drawn-down of accumulated savings**
- **Typical retiree/worker is confused**
 - They underestimate their life expectancy
 - Overestimate how much they can spend
 - Market volatility can lead to early depletion

The Market Perception

“If 99.9% of your potential customers are not buying your product, the problem is with the product, not the customer”

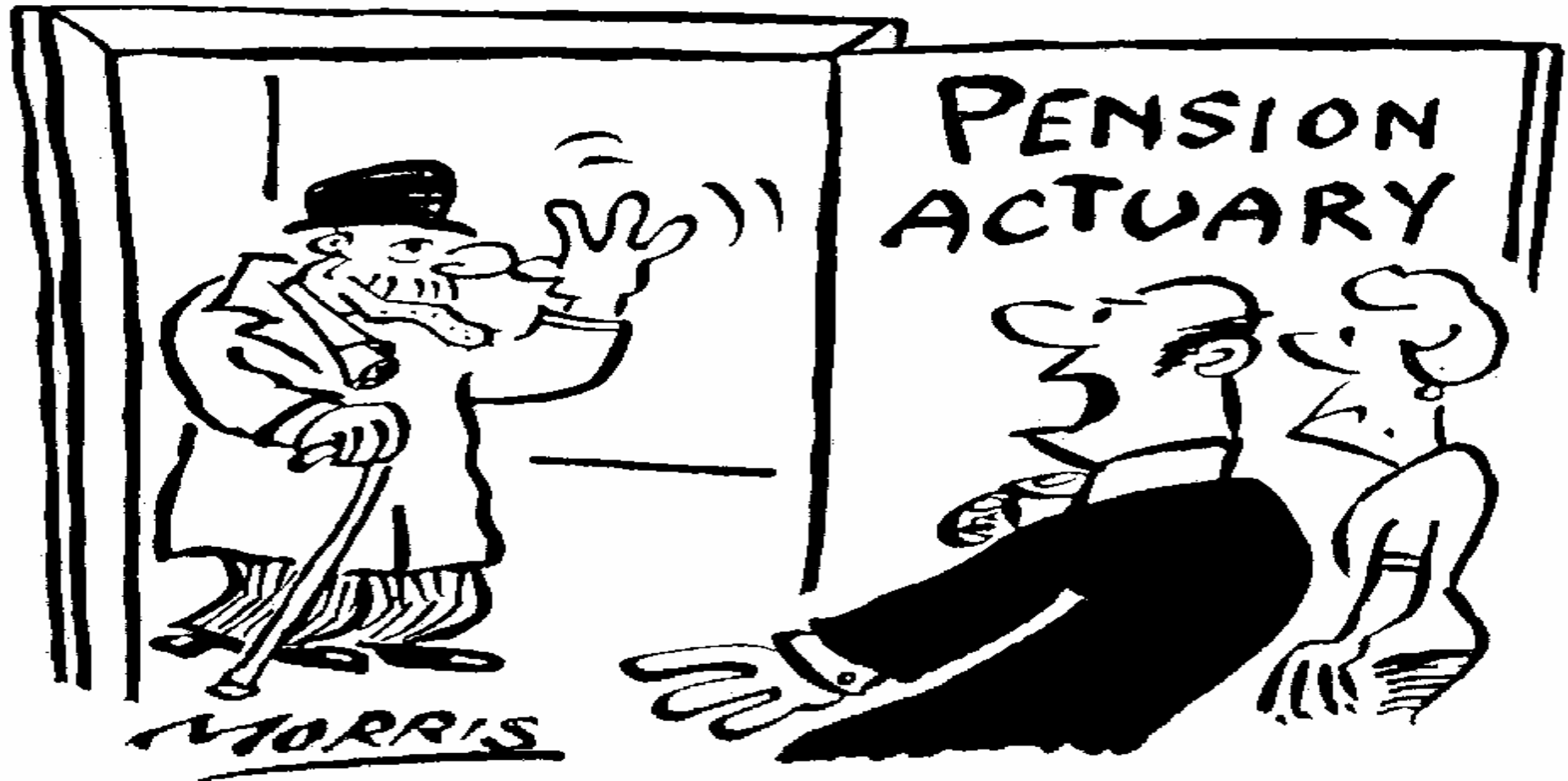
- David Wray, President

Profit Sharing/401(k) Council of America

Employee Benefit News,

March 1, 2005

Longevity Protection – A Serious Social Issue



"He's 104. He always comes back on his birthday - I worked out he'd be gone at 69."

Changing The Paradigm

- **Which income solution is best:**
 - **Systematic Withdrawal Program**
 - **Immediate Fixed Annuity (SPIA)**
- **Various tradeoffs to weigh such as access to liquidity, inflation protection, longevity risk protection**
- **How can these trade-offs be valued?**

Building The Financial Model

- **Monte Carlo Simulation**
 - **5000 Scenarios**
- **Asset Allocation Strategies**
 - **Aggressive (100% Stock – S&P 500)**
 - **Conservative (100% Bond – Long Term Corporate)**
 - **Balanced (50% Stock/50% Bond)**
- **Model Income: How Much & How Long**
 - **Insured and Self-insured Programs**
 - **Withdrawal Rate (inflated at 3%)**
 - **Asset Allocation**

Sample Problem To Be Solved

- **Male aged 65**
- **\$1,000,000 retirement portfolio**
- **Assume income is dominant variable**
- **Trade-off Income vs. Other needs/risks**

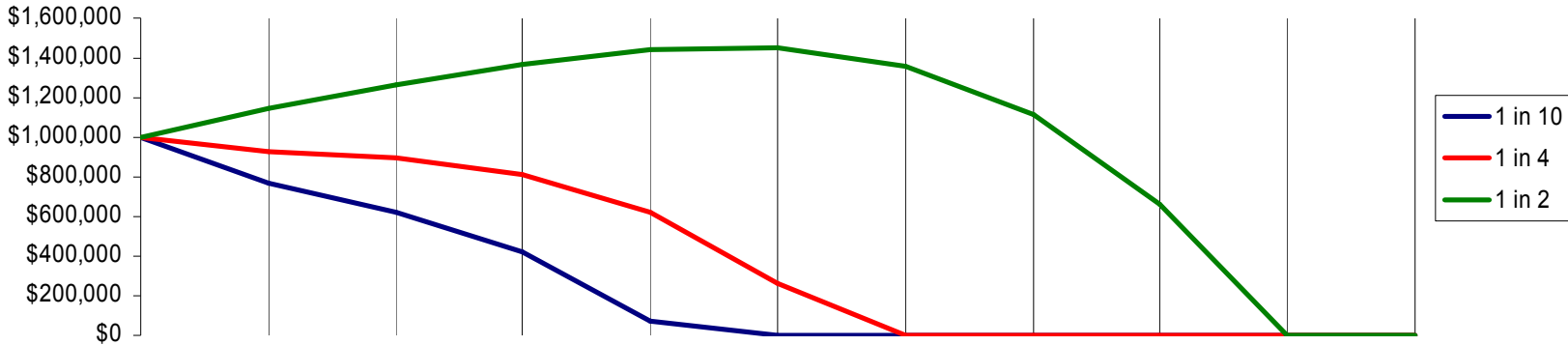


Systematic Withdrawals vs. Immediate Fixed Annuity?

Mutual Fund 5% Draw-Down Example

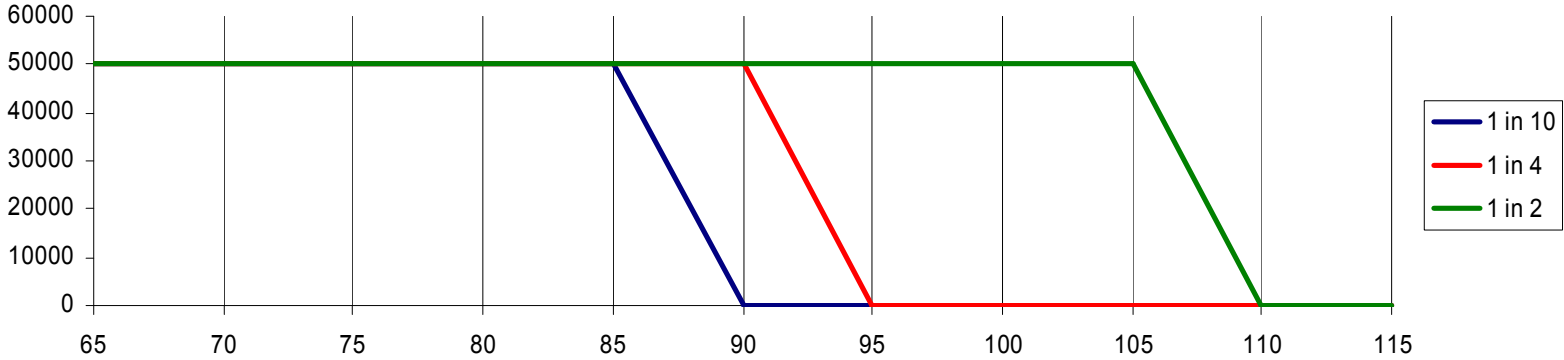
"Wealth"

Asset Balance



"Income"

Cash Flow



"Longevity"

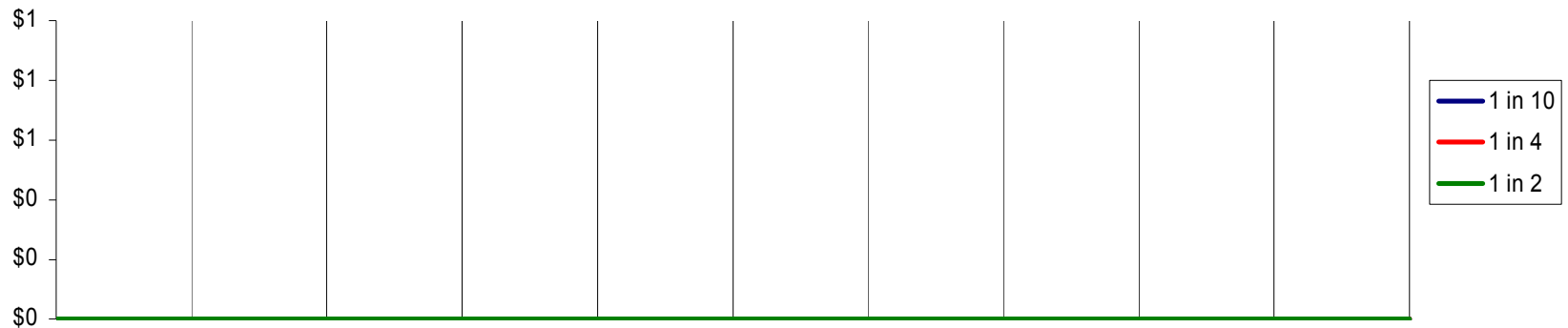
Longevity Risk



Life-Only SPIA Example

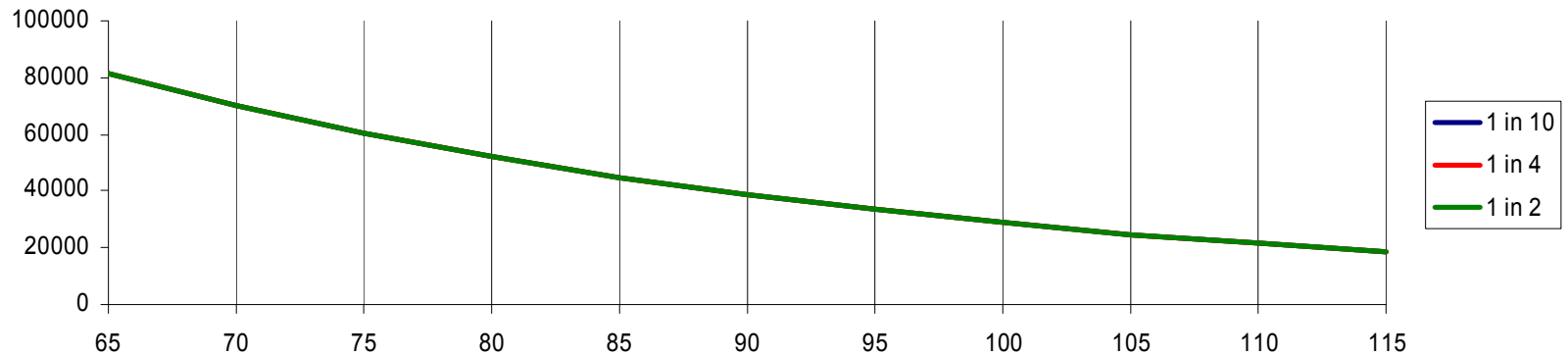
"Wealth"

Asset Balance



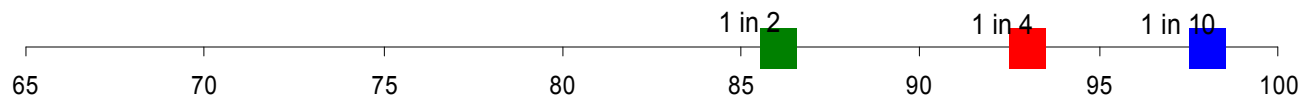
"Income"

Cash Flow
(Total)



"Longevity"

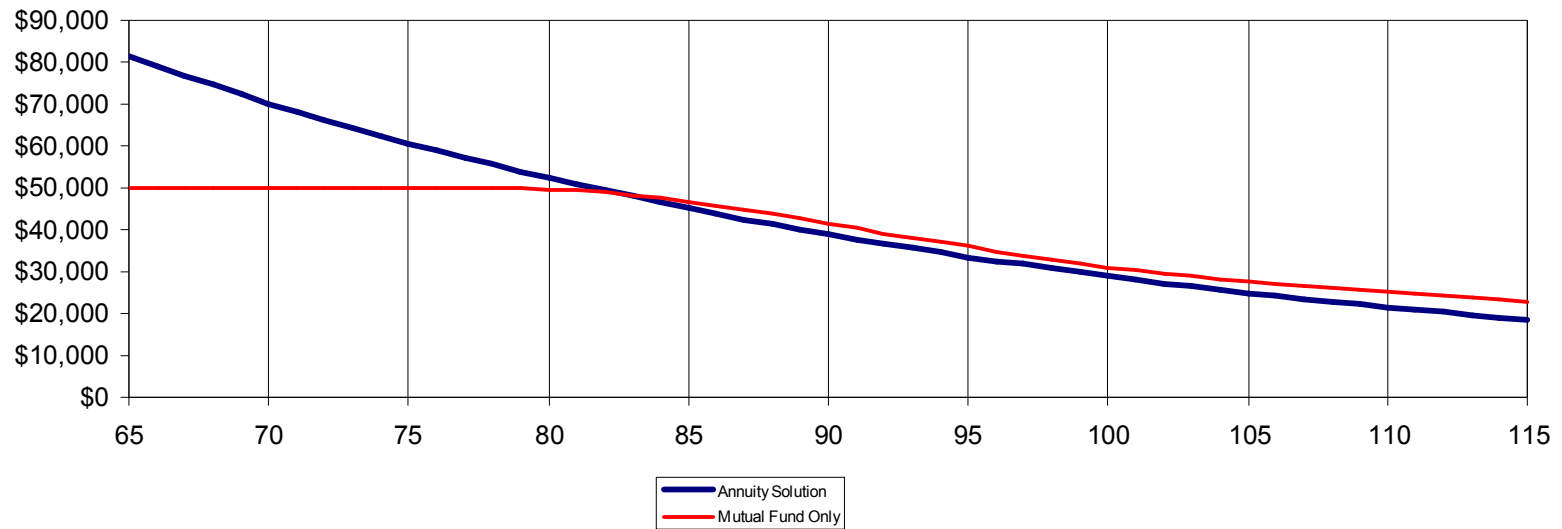
Longevity Risk



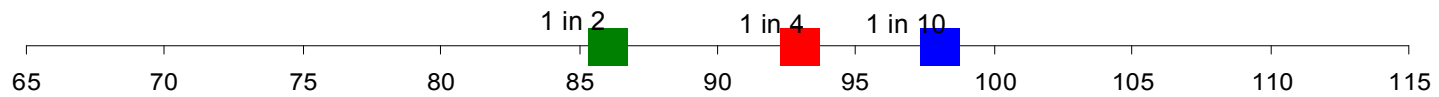
New Concept: Expected Income (Adjusted for Inflation & for Risk of Depletion)

Expected Income

Today's \$



"Longevity"
Longevity Risk





Innovation in Retirement Income Solutions

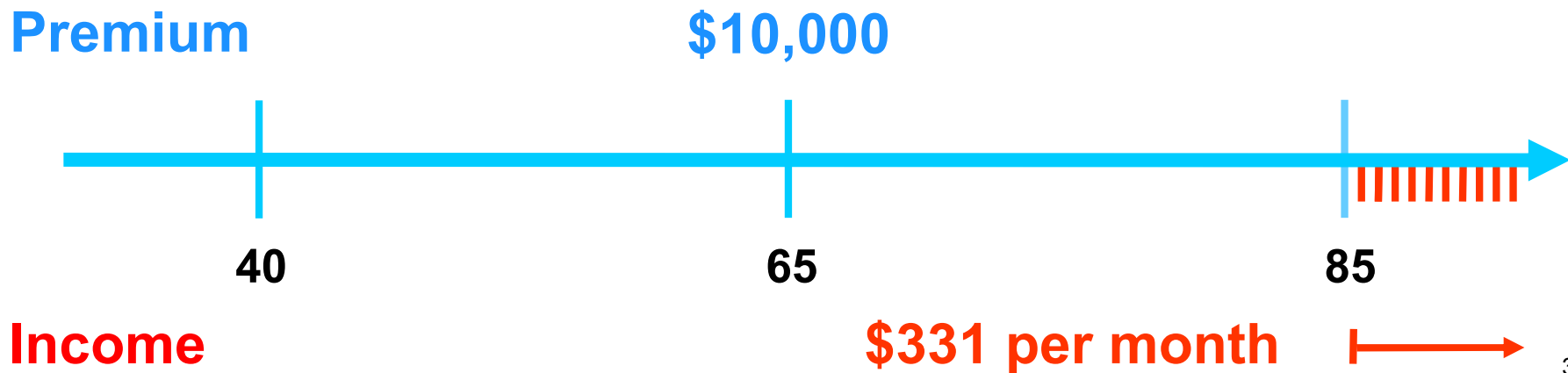
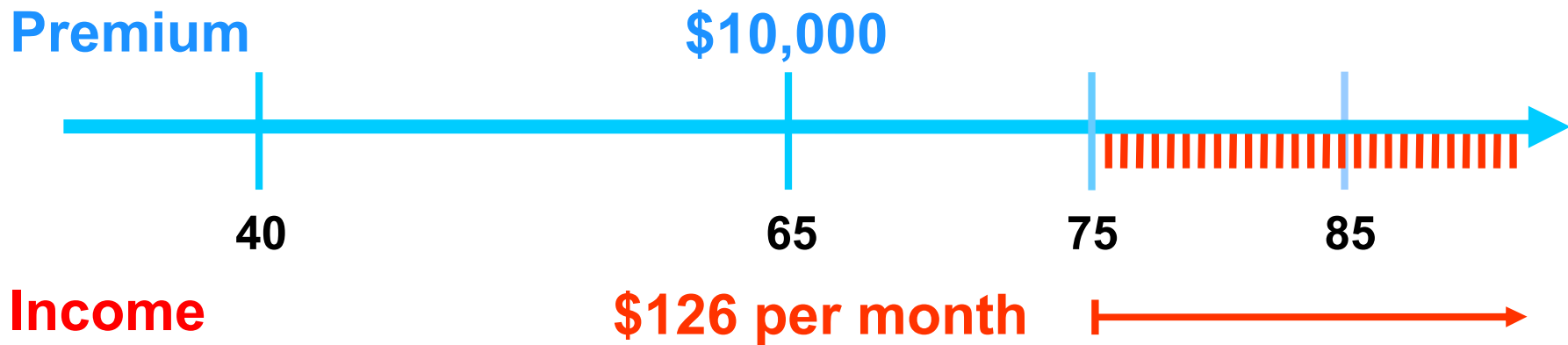
Position Income During Pre-Retirement

- **Education about challenges and risks faced in retirement**
- **Allow prospects to “see” future income and associated risks**
- **Product innovation – bridging the gap between today’s contribution and tomorrow’s income**

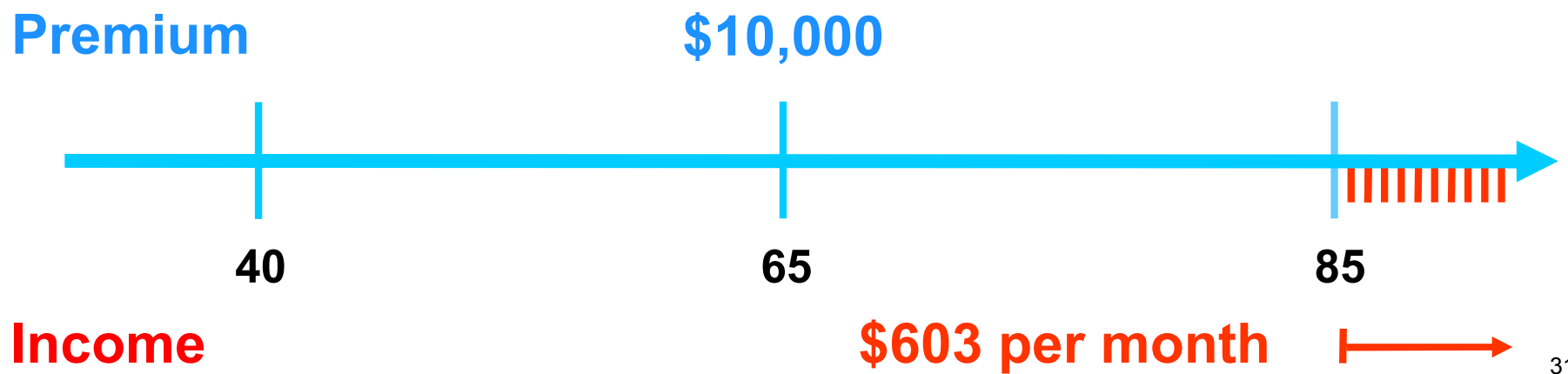
A Product Innovation: Personal Income Builder

- **The Product:** Fixed Deferred Income Annuity
- **Offered as:** A supplemental savings plan to complement an existing 401(k). Can be offered inside a qualified plan.
- **Key Design Features:**
 - Contribution today buys guaranteed income tomorrow at today's prices
 - Income starts between age 50 and 85 at client's choice (two year wait)
 - Range of income pay-out options can be selected
 - Pre-commencement death benefit equal contributions accumulated at 3% interest compounded to date of death
 - "Commutated value" may be available after income start and within a 60-day window (meets change in liquidity needs)

Standard Version



Retirement Income Insurance version



Summary of Personal Income Builder

Cost of “Funding” \$1,000/mo of Retirement Income for Life

Feature	Personal Income Builder	Retirement Income Insurance
Liquidity	✓	—
Flexible Income Date	✓	—
Death Benefit	✓	—
Cost for Male age 65 To Begin at 85	\$30,138	\$16,582

Costs based upon MetLife PIB purchase rates as of 5/1/2005.



The Swiss Army Knife of Retirement Income Solutions

What is an Immediate Variable Annuity?

- **Can provide guaranteed income for life**
- **Offers investment flexibility**
- **Income Payments vary depending on performance of underlying funding choices**
- **Can provide growth potential to help offset inflation**

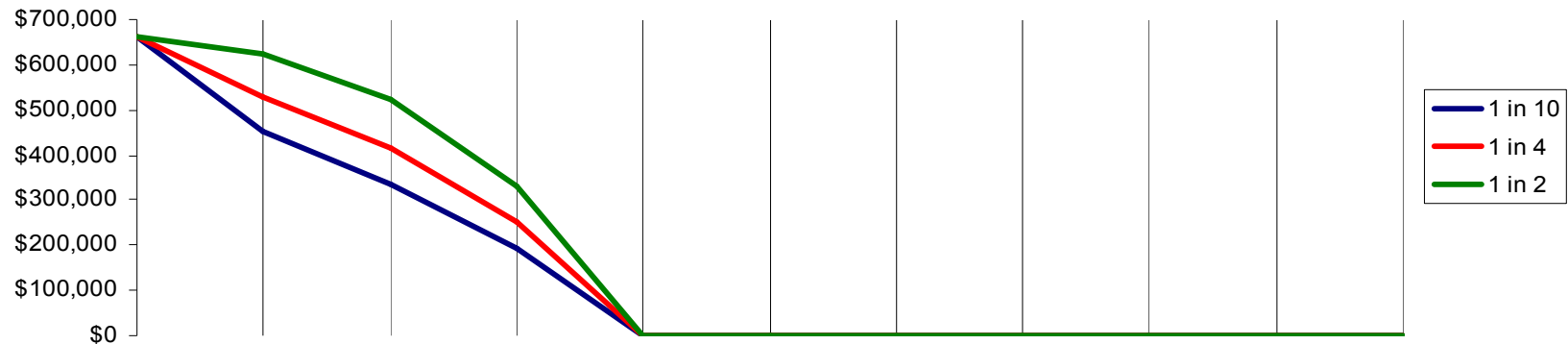
Feature Innovation: Fighting Perceptions

- **Revocable for limited time (“buyer’s remorse”)**
- **Partial liquidity from Guarantee Period payments**
- **Fixed income payments to protect downside**
- **Transfer between Fixed and Variable income**
- **True inflation indexing on Fixed income using CPI**

Example: IVA for Life w/20 years certain

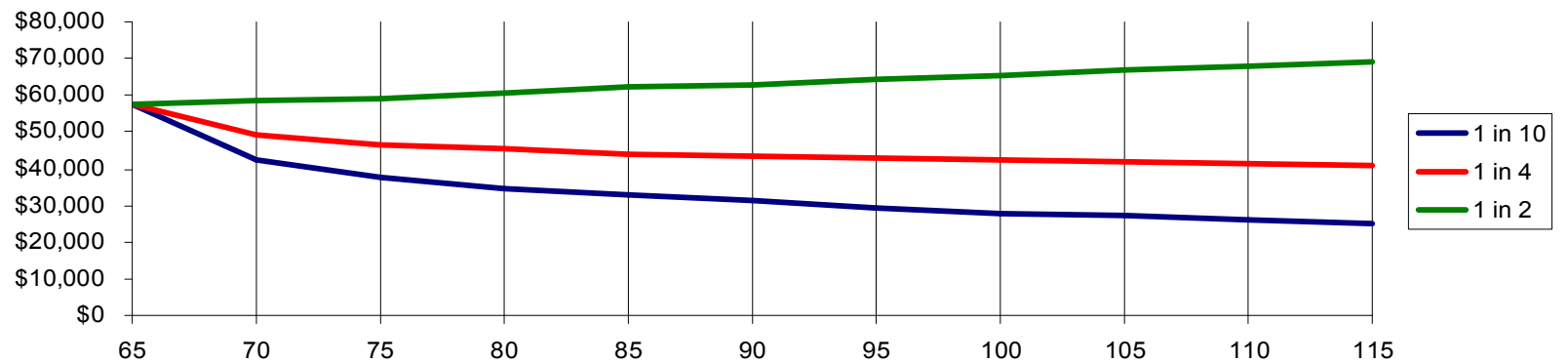
"Wealth"

Asset Balance



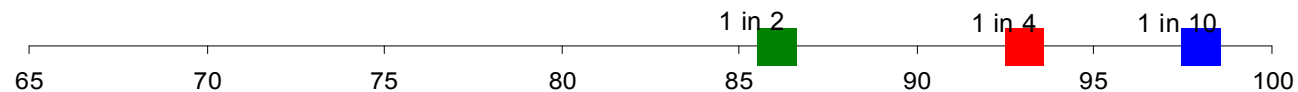
"Income"

Cash Flow (Today's)



"Longevity"

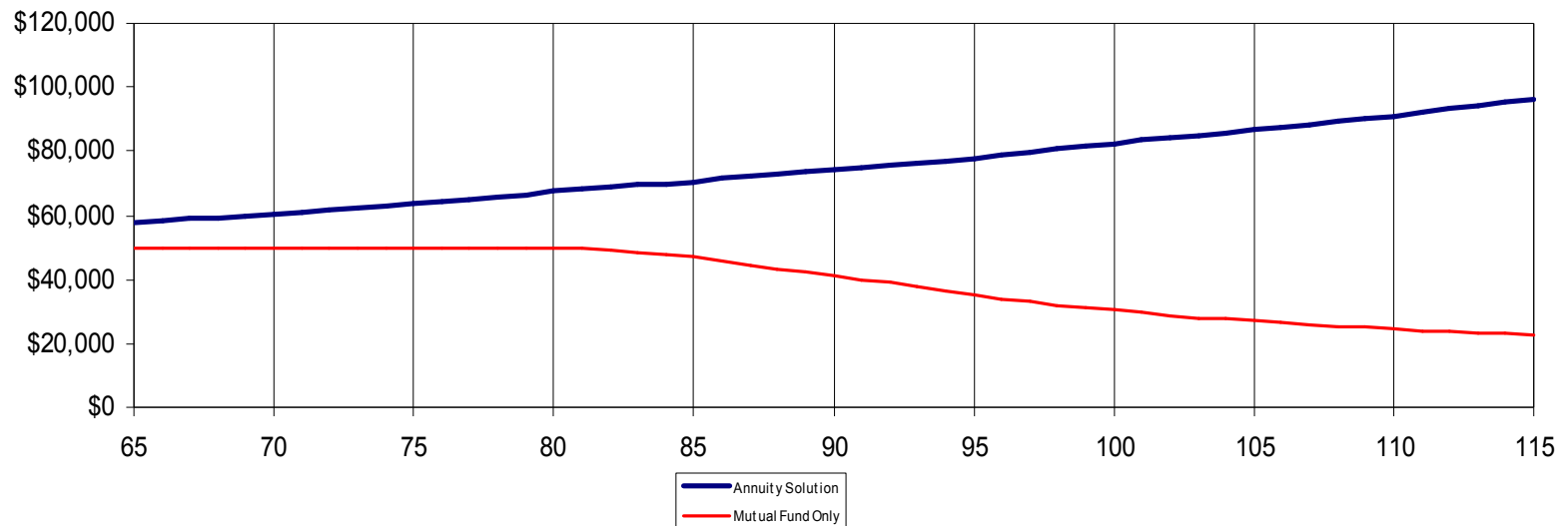
Longevity Risk



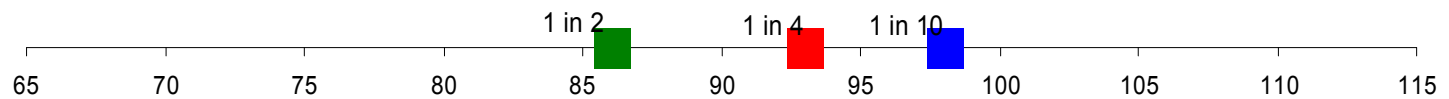
Expected Income: Systematic Program vs. IVA (Adjusted for Inflation & for Risk of Depletion)

Expected Income

Today's \$



"Longevity"
Longevity Risk





The Insured Solution or Self Insured (Systematic Withdrawal Program)?

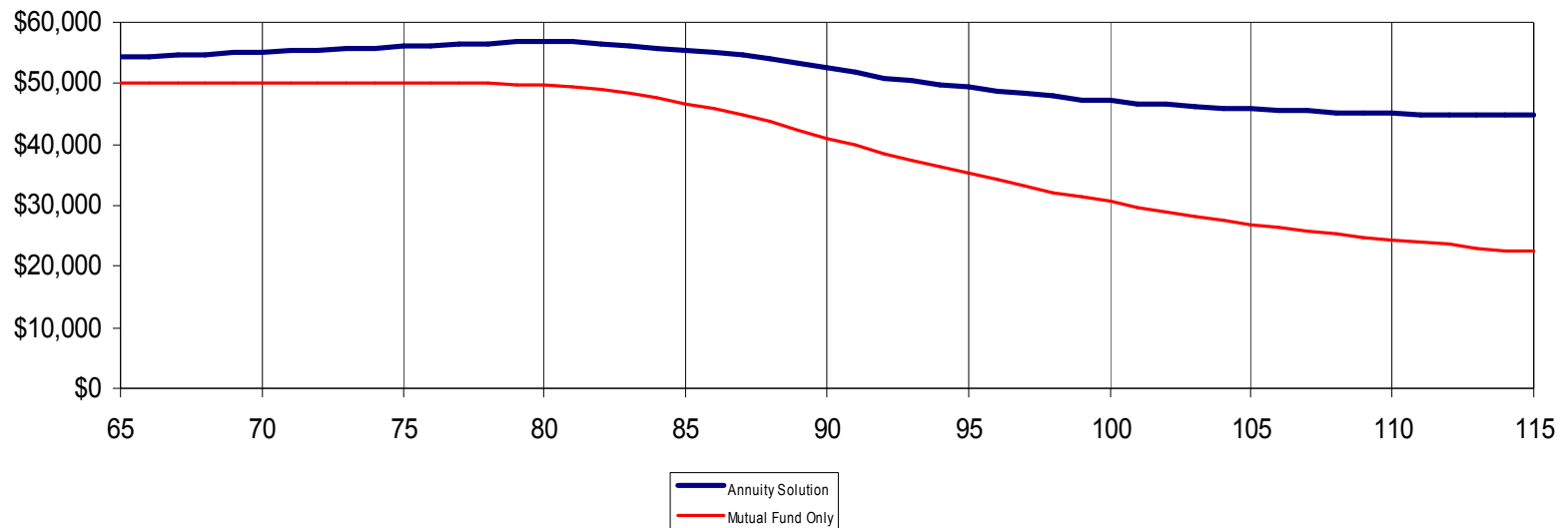
A New Way of Building Solutions

- ... doesn't have to be an “either-or” proposition
- **Customized Packaging: What portion and what kind of annuity to utilize?**
- **More profound understanding of problem leads to more compelling solutions, for example ...**

75% Self-Insured + 25% Insured: More income and better protection from inflation and depletion

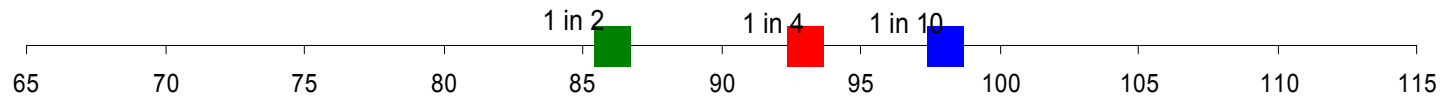
Expected Income

Today's \$



"Longevity"

Longevity Risk





Practical Challenges: The True Test of Innovation

Overcoming Challenges

- **Regulatory approvals**
- **Product Illustrations**
- **Compliance and suitability**
- **Tax laws and regulations**
- **Administrative systems**



Marketing & Distribution:

**We can bring the horse to water
... but can we make it drink?**

Product Retail: Making Them Drink

- **Create demand and engage those who sell (or find a proxy)**
- **Before retail comes wholesale – getting the attention of sales-people**
- **Make it easy for reps to sell – sales stories**
- **Tools must be provided to turn a complex problem into an actionable solution**



Example of a Sales Story enhanced with Sales Aids

Creating a Client Disturbance

The MetLife Retirement Success Calculator

Will Your Money Last as Long as Your Retirement Lasts?

This calculator was created by MetLife. It will estimate the likelihood (probability) that a specified level of annual withdrawals from a hypothetical asset portfolio with a specified portfolio allocation will last until certain future ages. It will also estimate the likelihood that you will live to those ages based on your current age and gender.

Select Age at which Withdrawals Begin (55-75):	<input type="text" value="65"/>
Select Gender:	<input type="text" value="Male"/>
Specify an Initial Annual Withdrawal Rate:	<input type="text" value="7%"/>
Choose an Asset Allocation to Simulate:	<input type="text" value="Cons (0% Stock/100% Bond)"/>
	<input type="button" value="Recalculate"/> <input type="button" value="Print"/>

Is this Strategy likely to be Successful for You?

<u>Attained Age</u>	<u>Likelihood of Living</u>	<u>Likelihood of Success</u>
75	84%	100%
85	53%	18%
95	17%	1%
105	1%	0%

- Did you know that a third of near retirees believe that an annual withdrawal rate of 7% from a retirement nest egg is likely to last for his or her lifetime? Source: MetLife Retirement IQ Survey, May 2003.
- Americans aged 55-64 overwhelmingly agree that having a guaranteed stream of income is their top goal. Source: Prudential Workplace Report on Retirement, Feb 2005.

Creating an Opportunity for Dialogue

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Is this Strategy likely to be Successful for You?

<u>Attained Age</u>	<u>Likelihood of Living</u>	<u>Likelihood of Success</u>
75	84%	100%
85	53%	99%
95	17%	90%
105	1%	78%

- Did you know that a third of near retirees believe that an annual withdrawal rate of 7% from a retirement nest egg is likely to last for his or her lifetime? Source: MetLife Retirement IQ Survey, May 2003.
- Americans aged 55-64 overwhelmingly agree that having a guaranteed stream of income is their top goal. Source: Prudential Workplace Report on Retirement, Feb 2005.

Better Solution = Potential Sale

Longevity Protection for Your Portfolio

This calculator was created by MetLife. It will help you to estimate the amount of your total portfolio to allocate to the Personal Income Builder (PIB) so that the amount of the annual lifelong income you would begin to receive at age 85 would equal the Initial Annual Withdrawal increased at the Annual Increase Rate from the age you start withdrawals until age 85.

Retirement savings vehicles can potentially be depleted of money with only modest withdrawals if earnings don't keep pace with withdrawals¹. The PIB can protect you by providing a guaranteed² lifelong income that other retirement savings vehicles may not provide.

Fill in the inputs below then click the Recalculate button to see the results.

Enter Total Amount of Portfolio you want to Protect	<input type="text" value="\$1,000,000"/>
Select Age at which Withdrawals ¹ start from the Portfolio	<input type="text" value="65"/>
Enter Initial Annual Withdrawal ¹ you'll make from the Portfolio	<input type="text" value="\$50,000"/>
Select an Annual Increase Rate	<input type="text" value="0%"/>
Personal Income Builder (PIB) ³	
Monthly Income at age 85 per \$1,000 of Premium	<input type="text" value="\$60.33"/>
	<input type="button" value="Recalculate"/>

Results

If you allocate this percent of your Portfolio to PIB	<input type="text" value="6.9%"/>
At age 85, your estimated PIB Annual Income ⁴ would be	<input type="text" value="\$50,000.00"/>
The Portfolio remaining after the PIB purchase is	<input type="text" value="\$930,935.41"/>
Your Initial Annual Withdrawal ¹ of \$50,000 represents a withdrawal rate of 5.4% of your remaining Portfolio after the allocation to PIB.	
	<input type="button" value="Print"/>

Portfolio Protected for Longevity Risk!

Conclusion

- **The Insurance industry is faced with the strategic opportunity for a lifetime**
- **Great ideas will not guarantee success**
- **Successful strategic execution is both inward (competency) and outward (audience) looking**
- ***Create the future* and they will come ... our very survival depends on it!**
- **There is a significant career opportunity ... you can help!**