



Trends in Retirement Plan Administration

A Defined Contribution Perspective

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Agenda

- Market Overview
- Trends in Plan Design
- Plan Sponsor Perspective
- Participant Perspective
- How ING Can Help





Market Overview

Market Overview

- The market downturn has frightened many investors; creates the need for more proactive retirement solutions
- The 401(k) plan has transformed:



- “Auto” services release DC participants of any decision-making
- Increased need for “auto” adoption and pre-diversified, risk-appropriate lifecycle fund options; greater risk customization and open architecture
- Lifecycle funds are a small portion of total retirement assets yet account for as much as half of DC inflows

Source: Cerulli: 2008 Retirement Market Update, December 2008



Market Overview

- The DC market is being challenged on two fronts:
 - Baby Boomers will begin retiring in earnest over the next decade
 - An economic crisis has taken hold
- Asset managers will want to be ahead of the curve on things such as:
 - Lifecycle (target-date) funds
 - Rollover capture
 - Executing well on the retirement income front
- Private DC and 401(k) marketplaces:
 - Direct hit from economic crisis
 - Asset growth will slow significantly in the near term and will take time to recover to pre-2008 levels
 - Economic downturn highlighted the need for advice for plan participants

Source: Cerulli: 2008 Retirement Market Update, December 2008



Market Overview: General Effects on the Industry

- Shifting demographic within the plan – much higher percentage of term deferred vs. active accounts due to retirement packages and layoffs
- Economic re-modeling by plan providers – downturn too much to handle
 - Expect some conversations, particularly if the provider has a large percentage of fees earned from the assets
- Small/mid plan sponsors are becoming much more savvy and sophisticated around investment plan design and fee structure

Market Overview: Retirement Confidence Declines

- Percentage of workers very confident about having enough for comfortable retirement decreased sharply
 - 27% for 2007 vs. 18% for 2008
 - Biggest one-year drop in the 18-year history of the survey
- Retirement confidence in having a “financially secure” retirement decreased sharply from 41% very confident to 29%
- Less than half of the workers (47%) say they and/or their spouse have tried to calculate how much money they will need for a comfortable retirement
- The percentage of workers (72%) saying they saved for retirement has returned to 2001-2006 levels after a slight dip in 2007 (66%)
 - 49% report total savings and investments of less than \$50,000
 - 22% of workers and 28% of retirees say they have no savings of any kind

Source: “Defined Contribution Industry Issues” Published By: American Century Investments, January 2009



Market Overview: Current Economic and Legislative Environment

- Retirement saving coverage adequacy is area of policymaker focus
 - Nov. 2007 GAO report found low DC plan participation, low and inadequate account balances, less participation opportunity for low income
 - Feb. 2009 hearing: Witnesses advocated major overhauls of DC system
 - President Obama calling for action (auto enroll or direct deposit IRA acct)
- Trade associations are mounting a defense of the industry
 - DC system has numerous accomplishments
 - Different opinions: Keep voluntary system or concede to mandatory?
- Consideration and potential redesign of workplace retirement plan
- Promoting retirement “security” through annuitization incentives is gaining traction

Currently, lawmakers and industry organizations are giving serious attention to a number of bills. Any or all of these proposals could die in committee, change radically or pass after this legislative session ends.



Market Overview: DC Market Remade by 2015

The changes sweeping the DC landscape imply five profound shifts in the size and structure of the industry by the year 2015:

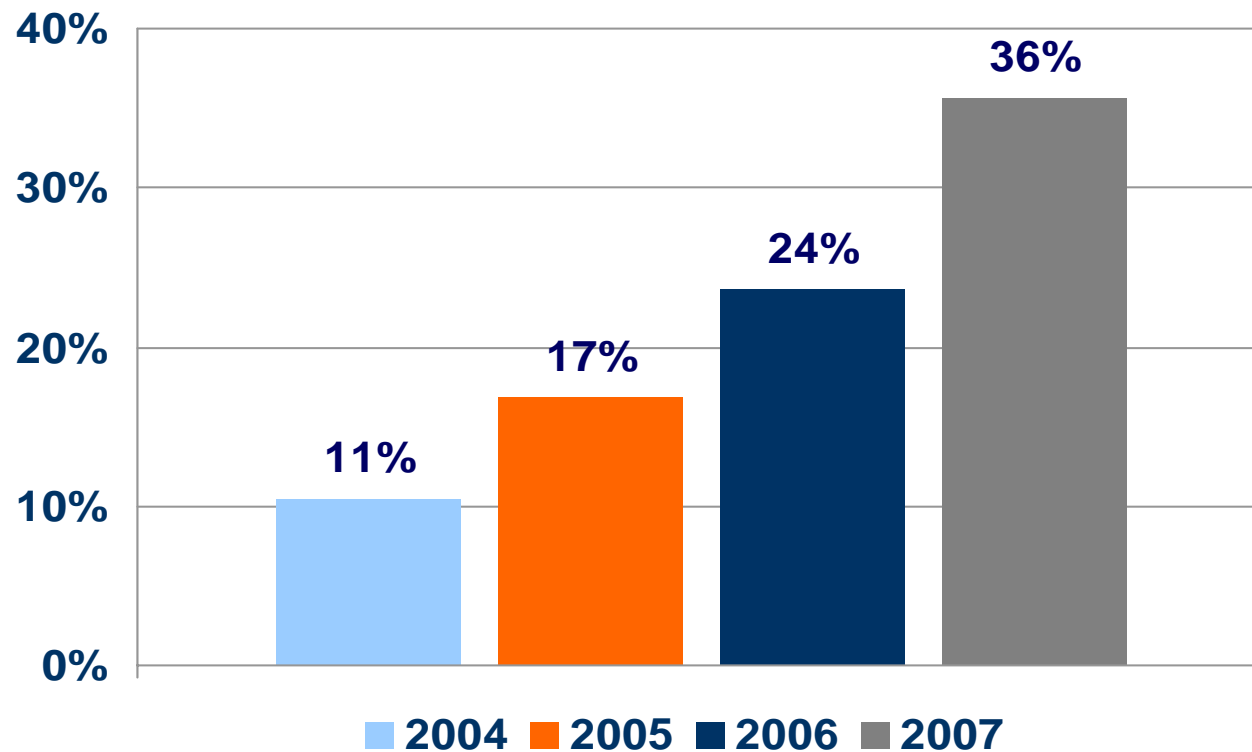
- DC market could nearly double in size to reach \$7.7 trillion in AUM – the largest sector of the retirement market when considering IRA rollovers from DC plans
- Asset allocation funds could account for 35% of AUM, share of passive assets may likely double
- Continued shift in industry economics – More than 90% of industry revenues could be generated by asset management, advice, and the rapidly growing IRA roll-over market versus traditional recordkeeping
- A 4-way race between at-scale integrated players, leading insurers, IODC players and new entrants (e.g., consultants, financial advisors) to capture advice, asset allocation and retirement income opportunities





Trends in Plan Design

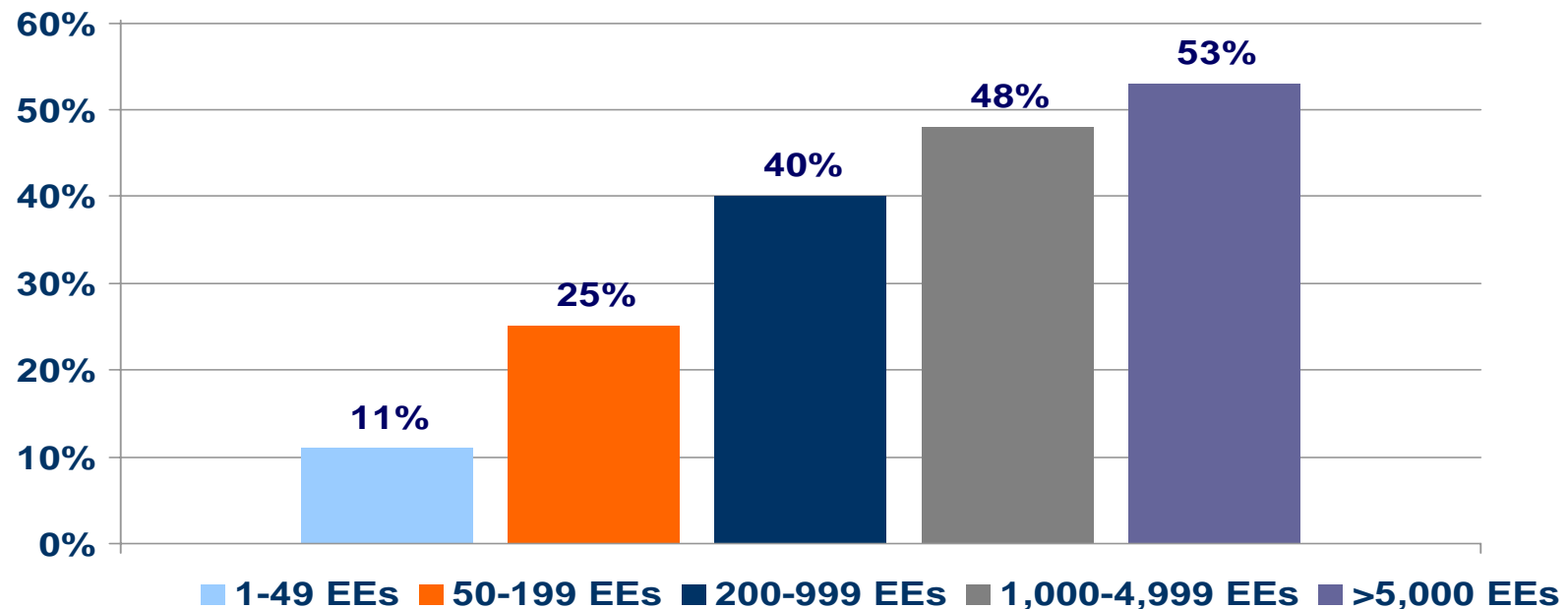
Trends in Plan Design: Automatic Enrollment Growth



Source: "51st Annual Survey of Profit Sharing and 401k Plans," Published By: Profit Sharing/401k Council of America, 2007



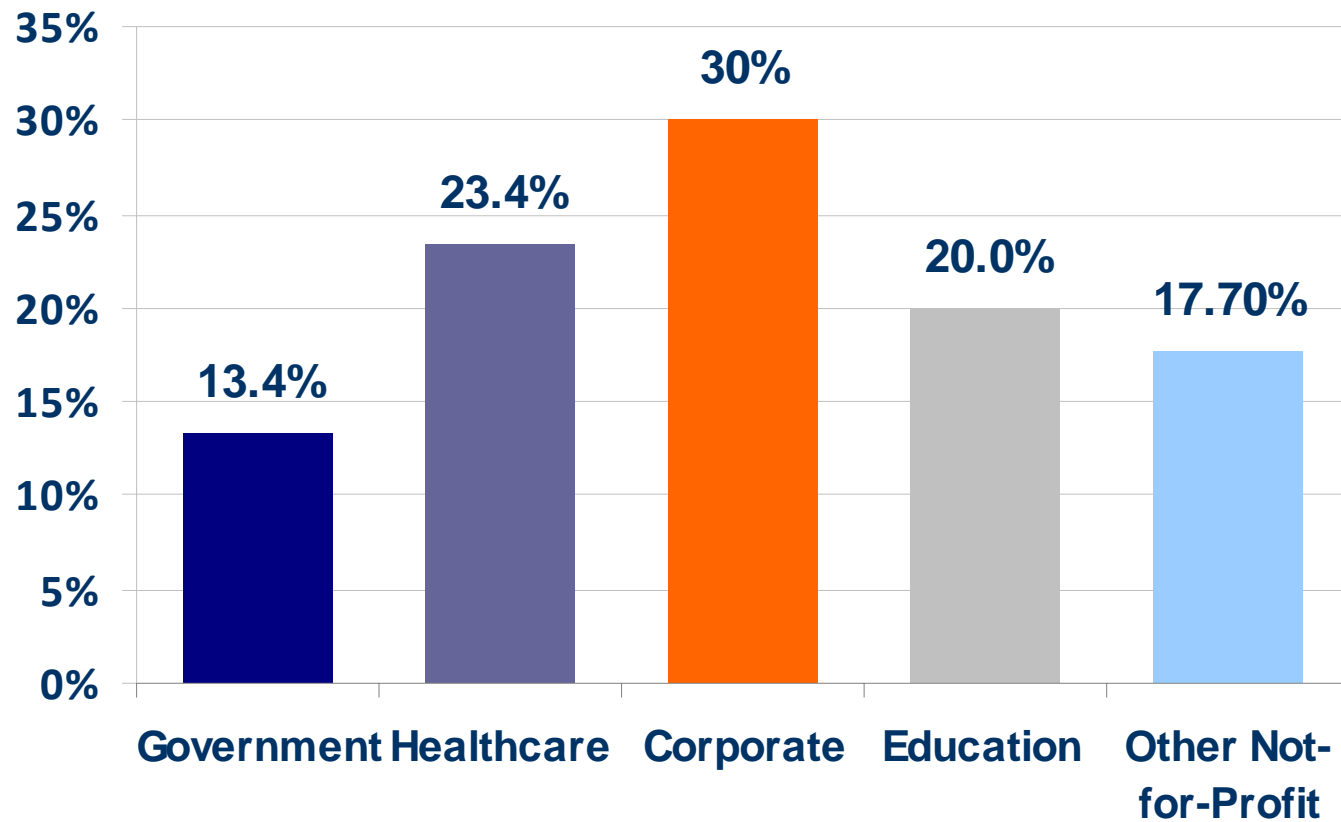
Trends in Plan Design: Percent of Plans with Auto Enroll and QDIA for Auto Deferrals



Source: "51st Annual Survey of Profit Sharing and 401k Plans," Published By: Profit Sharing/401k Council of America, 2007



Trends in Plan Design: Automatic Enrollment by Sector



Source: "Universal Truth? Defined Contribution Plans " Published By: ING Institute for Retirement Research May 2009



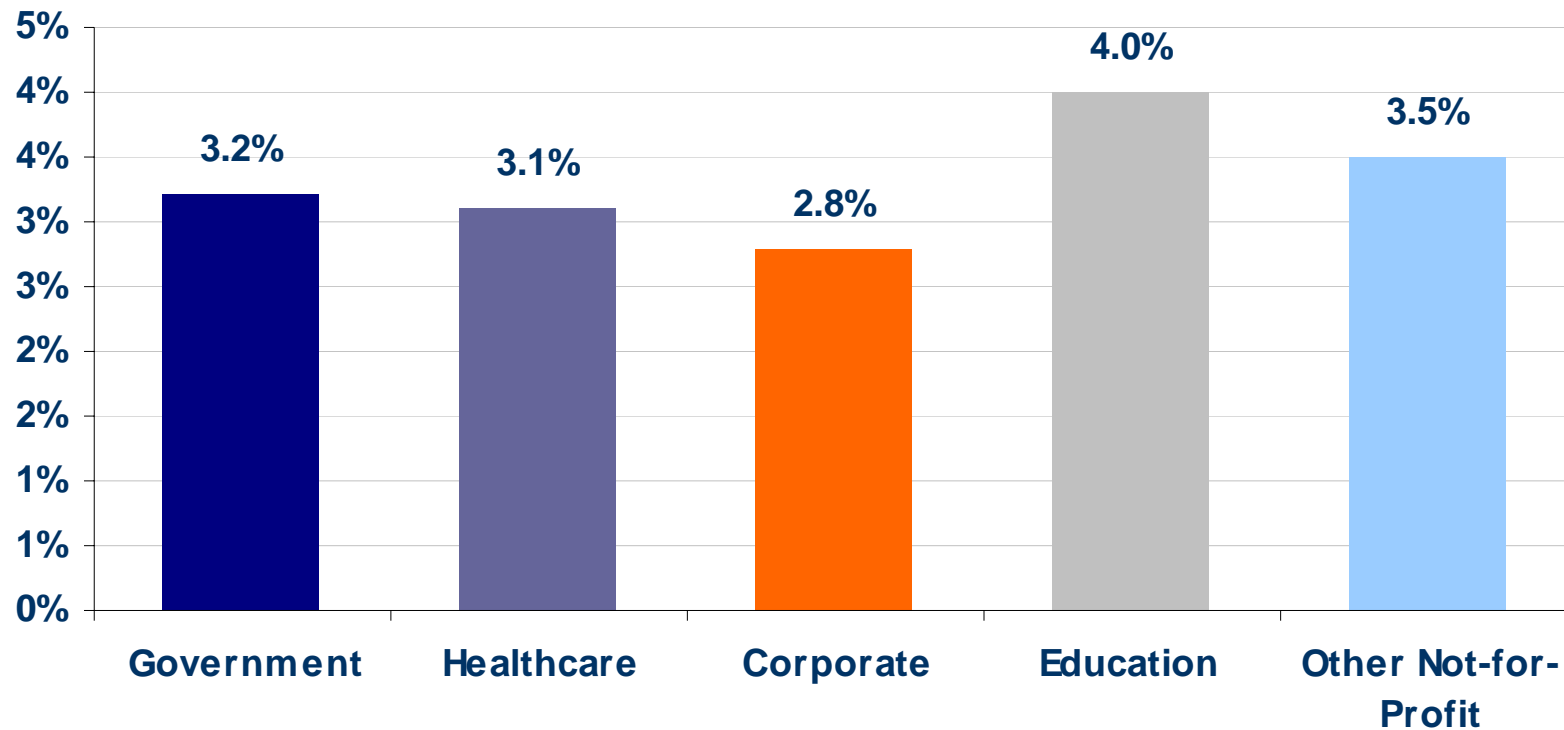
Trends in Plan Design

- Auto escalation option is increasing in popularity
 - 32.8% of all plans using automatic enrollment automatically increase default deferrals
 - 16.9% of plans offer a voluntary escalation option
 - 50.3% offer no escalation option
- Higher use of Roth 401(k)
 - The number of plans offering Roth 401(k) increased by two-thirds in 2007
 - 30.3% of plans permit Roth 401(k) deferrals
 - 12.6% of participants made Roth 401(k) contributions when Roth is offered

Source: "51st Annual Survey of Profit Sharing and 401k Plans," Published By: Profit Sharing/401k Council of America, 2007



Trends in Plan Design: Initial Deferral Rate by Sector

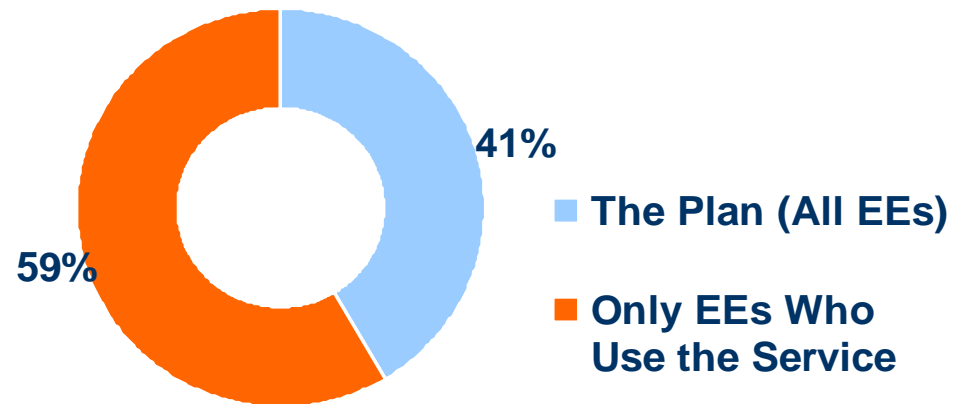


Source: "Universal Truth? Defined Contribution Plans " Published By: ING Institute for Retirement Research May 2009



Trends in Plan Design: Advice/Managed Accounts

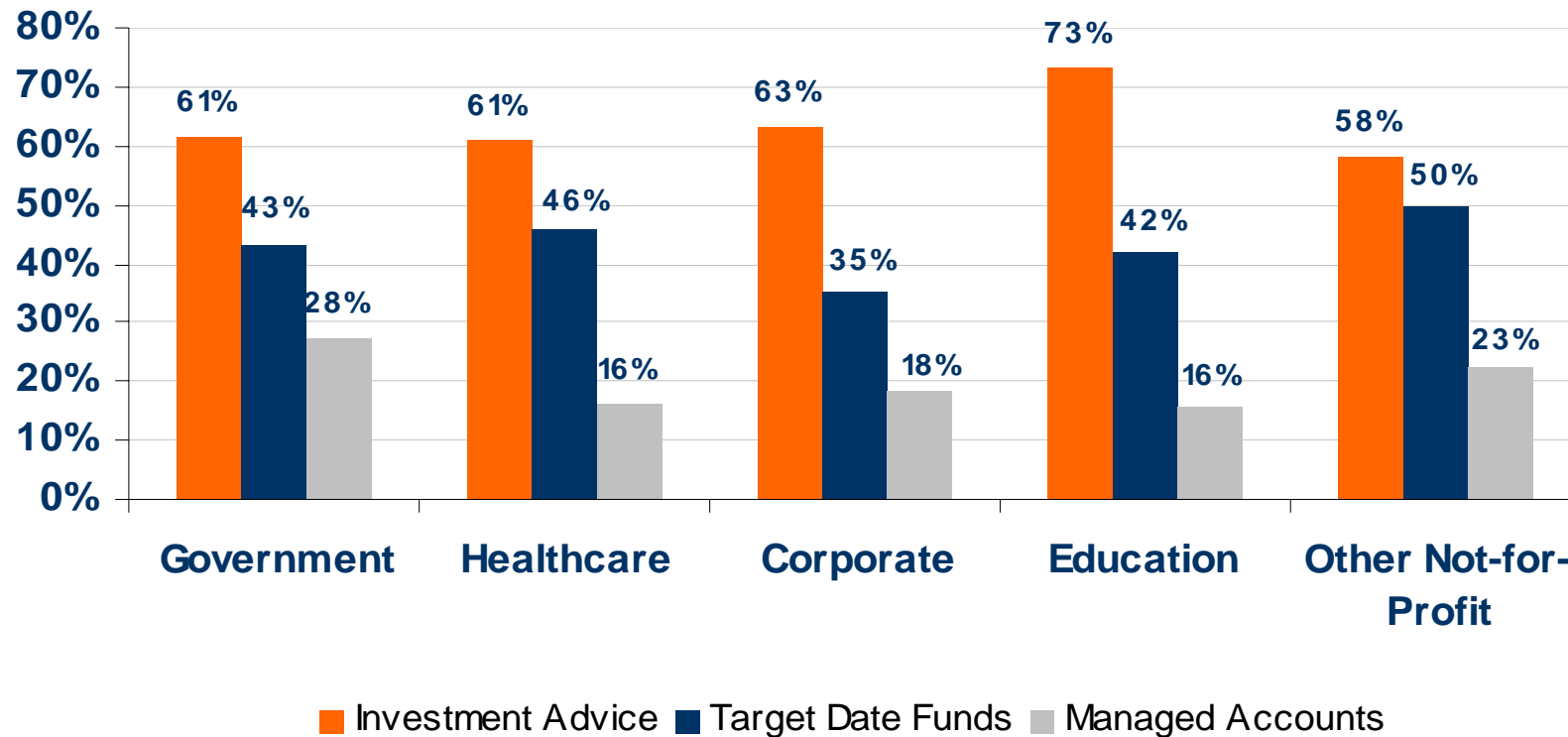
- Prevalence of advice/managed accounts
 - 48.6% of all plans offer outside investment advisory services to employees
 - The most common types of advice offered are:
 - One-on-one counseling (61.2%)
 - Internet providers (43.8%)
 - Telephone hot lines (33.1%)
- Who pays for the advice service?



Source: "51st Annual Survey of Profit Sharing and 401k Plans," Published By: Profit Sharing/401k Council of America, 2007



Trends in Plan Design: Advice/Managed Accounts by Sector

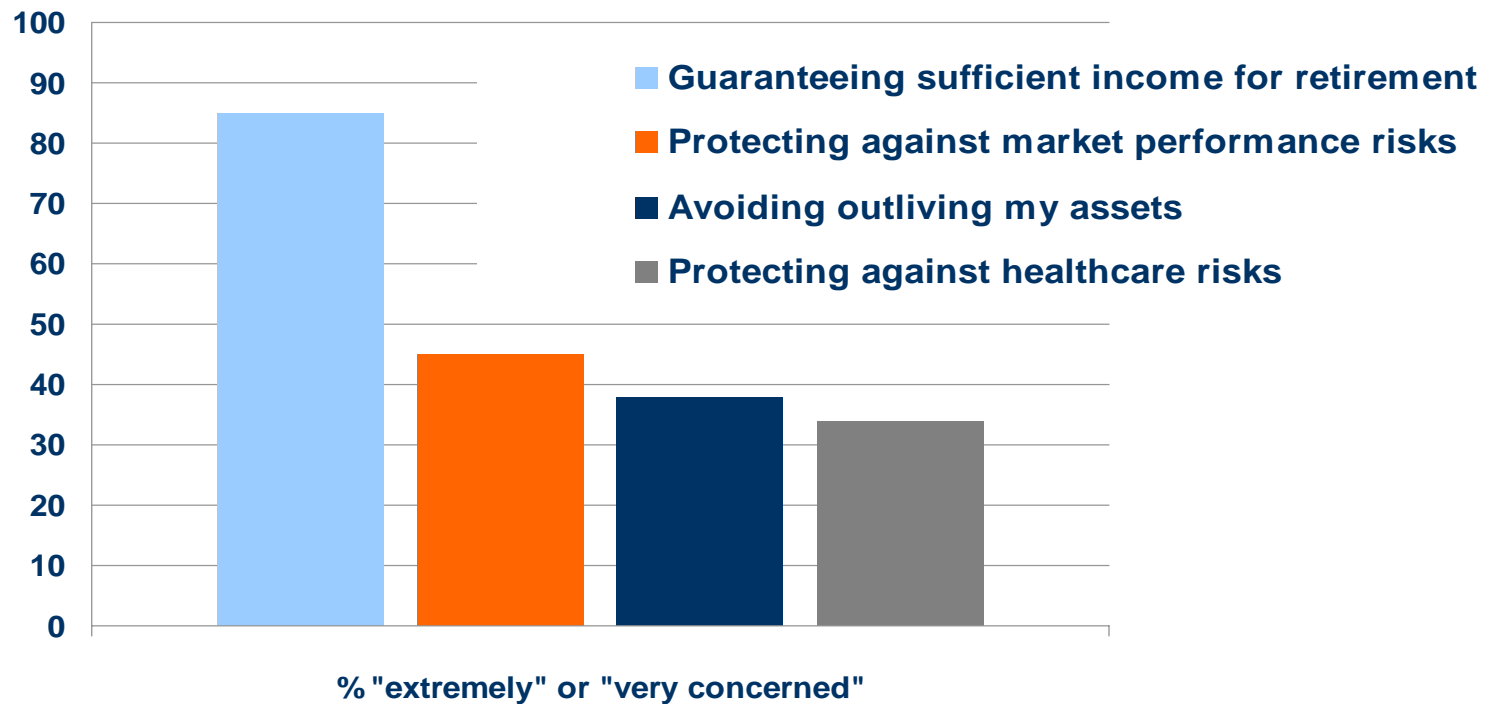


Source: "Universal Truth? Defined Contribution Plans " Published By: ING Institute for Retirement Research May 2009



Trends in Plan Design: Income Solutions

Consumers Seeking Advice on Issues



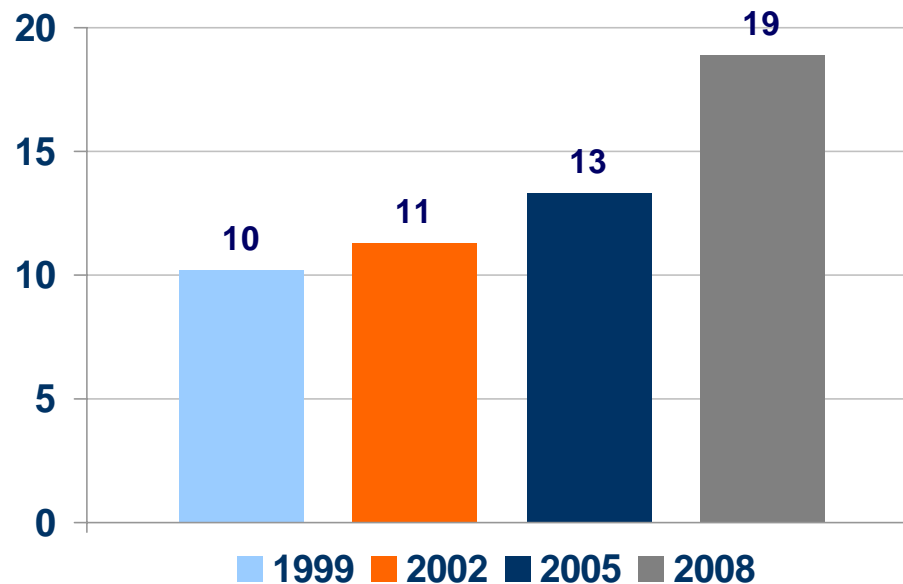
Source: McKinsey Consumer Retirement Survey, 2007



Trends in Plan Design: Investment Options

- Number of plan-level investment options has increased since 1999
 - Also, the approach to target-date vs. build your own portfolio

Number of Investment Options in the Plan



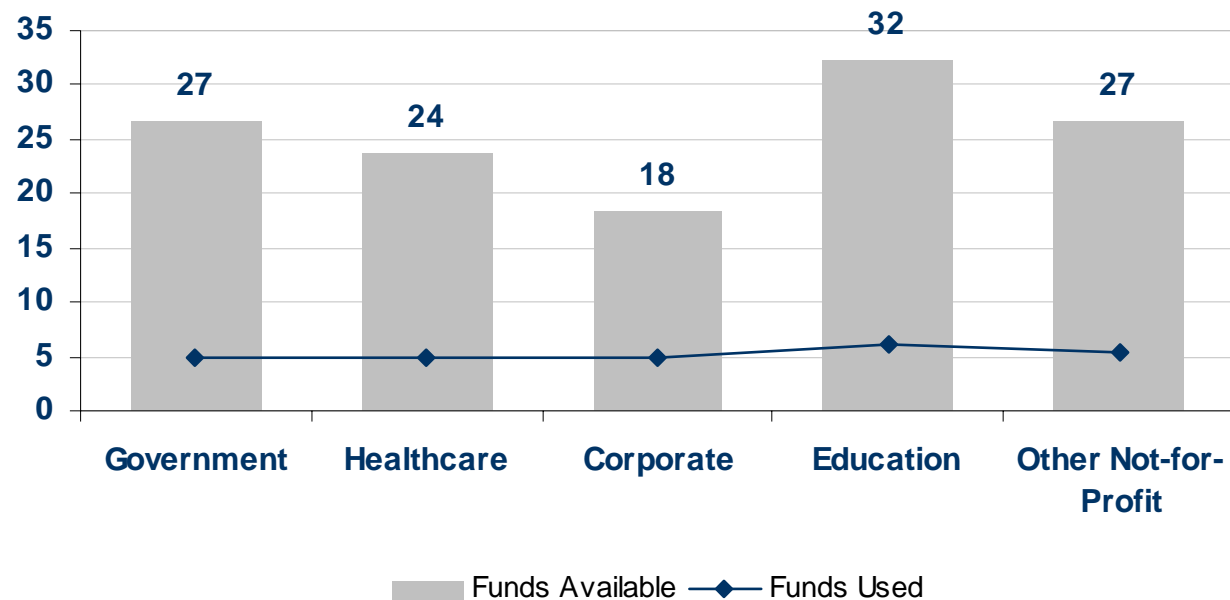
- May be attributed to the addition of target-date funds

Source: IOMA Benchmarking 401(k) Plan Fees Webinar, 2009 Spectrum Group



Trends in Plan Design

Despite often-large investment menus, participants tend to invest in an average between four and five options, regardless of plan or employer type.



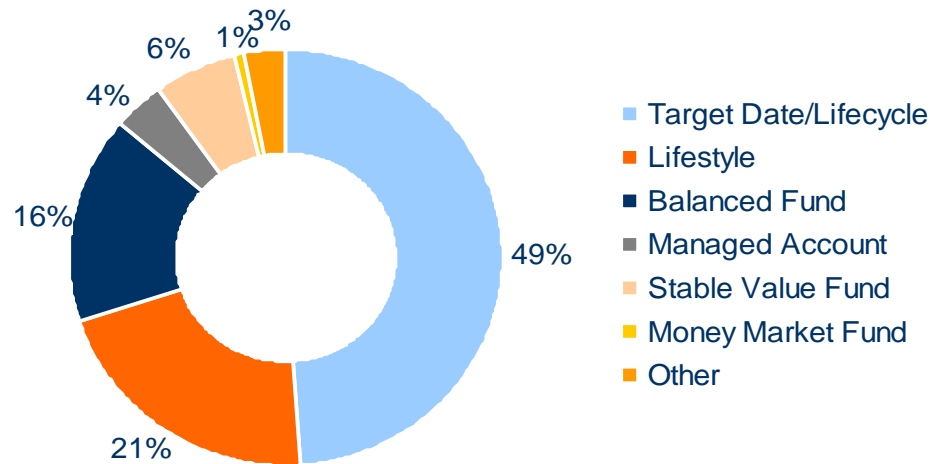
Source: "Universal Truth? Defined Contribution Plans " Published By: ING Institute for Retirement Research May 2009



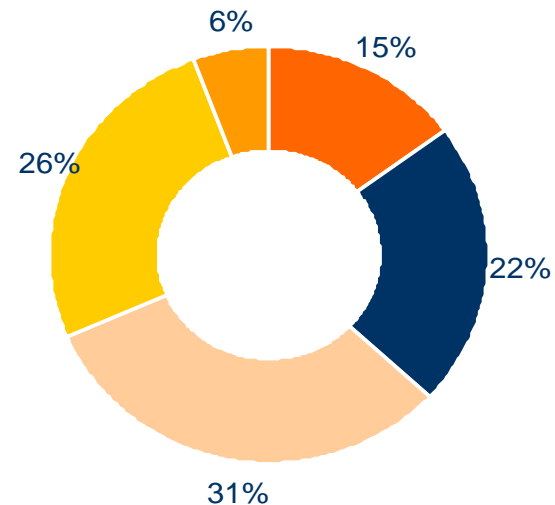
Trends in Plan Design

- Most common default investment options: target retirement date funds

Funds Used as Default Options: PY 2007



Funds Used as Default Options: PY 2002



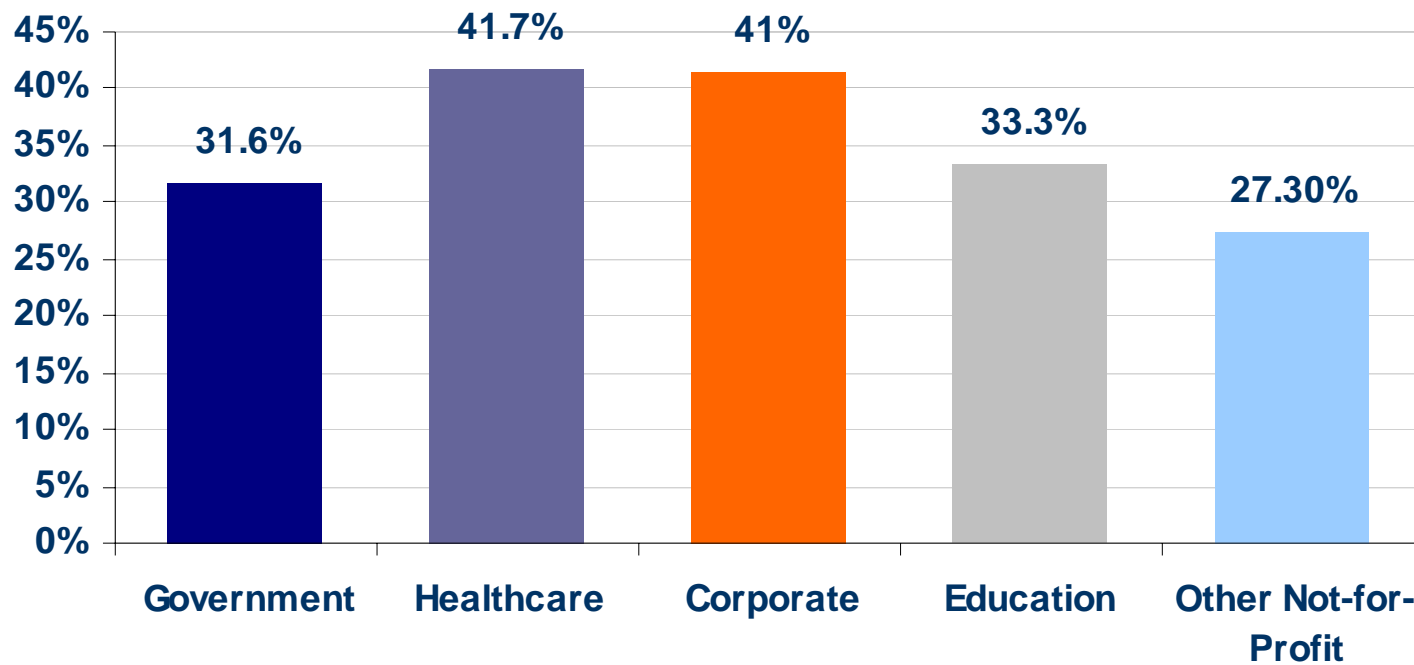
- New developments made possible by PPA
 - QDIA: Safe Harbor default option
 - EACA / QACA

Source: 46th Annual Survey of Profit Sharing and 401k Plans, Published By: Profit Sharing/401k Council of America, 2007



Trends in Plan Design

- Automatic enrollment into Target Date Funds by sector



Source: "Universal Truth? Defined Contribution Plans " Published By: ING Institute for Retirement Research May 2009



Trends in Plan Design: Summary

- Reaction to market events:
 - Mid- and small-sized sponsors are growing in investment sophistication
- Plan investment design:
 - Sponsors continue to eliminate overlapping funds / secondary asset classes
 - Greater reliance on target date funds
- Plan investments:
 - “Secondary” asset classes increasingly used in custom and prepackaged target date funds
 - Income products
- Participant behavior:
 - Governed by inertia
 - Sponsors continue to investigate mandated investment re-election





Plan Sponsor Perspective

Plan Sponsor Perspective

- Fewer investment fund changes; changes are around target date funds and conservative options
- Continued focus on participation through auto enroll and auto escalator
- Positioning the plan as a key benefit given minimal/no pay increases
- Reduction or elimination of company match
- Increased interest in transition counseling services; focused on layoffs/early retirements
- Investment education/continued outreach to ease participant concerns

Consider This:

A continued focus on employee education offers you an opportunity to highlight your contributions to the plan's success. Your support as an educator and enrollment facilitator can help increase the level of participation and contributions levels.





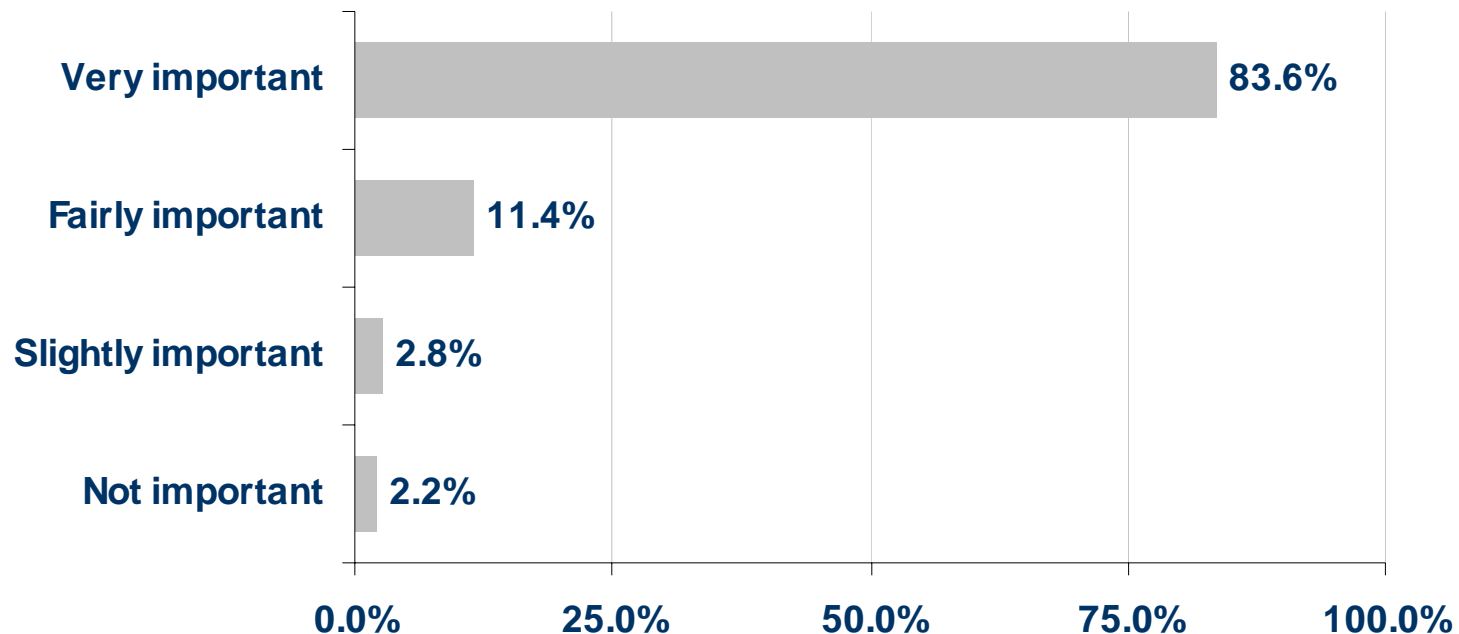
Participant Perspective

Participant Perspective

- Lots of activity going to stable value fund alternatives
- More participants have **increased** vs. reduced or stopped contributions as a result of the market downturn
- Participant risk assessment strategy:
 - If they're losing sleep at night, it's probably time to reassess
 - If they're sleeping okay, probably okay to stay the course
- Marketplace activity: taking a "wait and see" approach
- Many people are not going to be retiring because they've lost so much
 - Upcoming trend could be "semi-employed"

Participant Perspective

83.6% of participants feel their employer's plan (i.e. 401(k), 403(b), 457) is **very important** when it comes to investing for retirement.

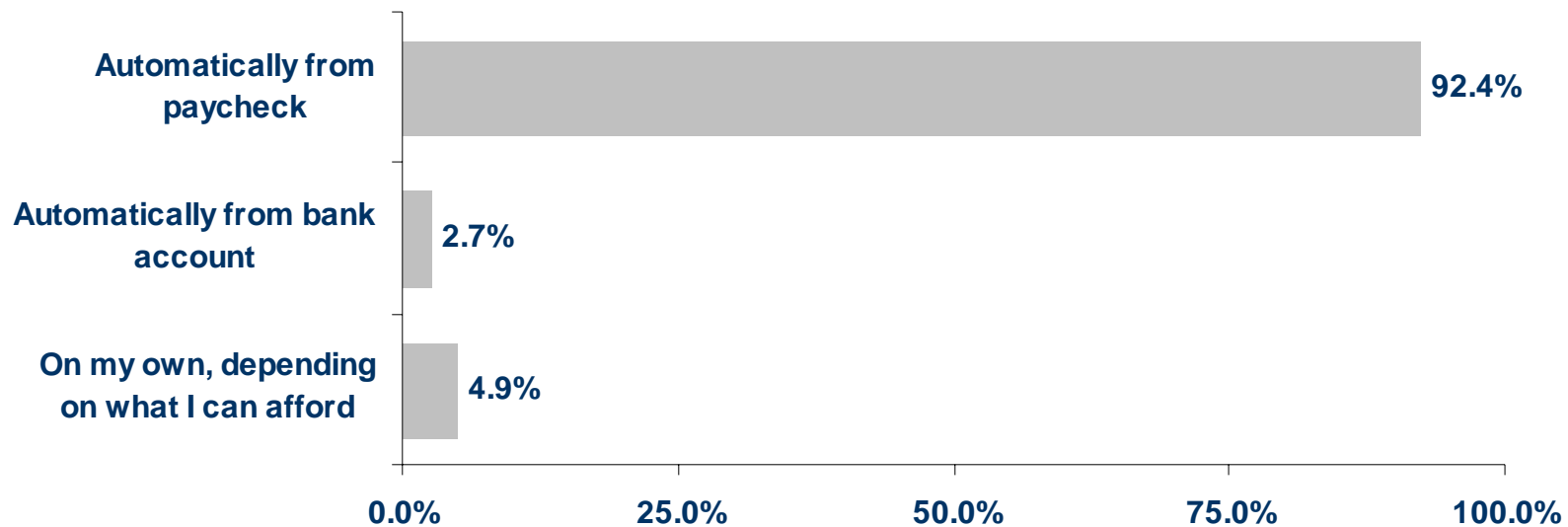


Source: "New Retirement World Order" Published By: ING Institute for Retirement Research, May 2009



Participant Perspective

Recognizing the importance of retirement saving, most individuals prefer an “automatic” method, with a very strong preference to have the investment directly deducted from a paycheck as the best way to save for retirement.

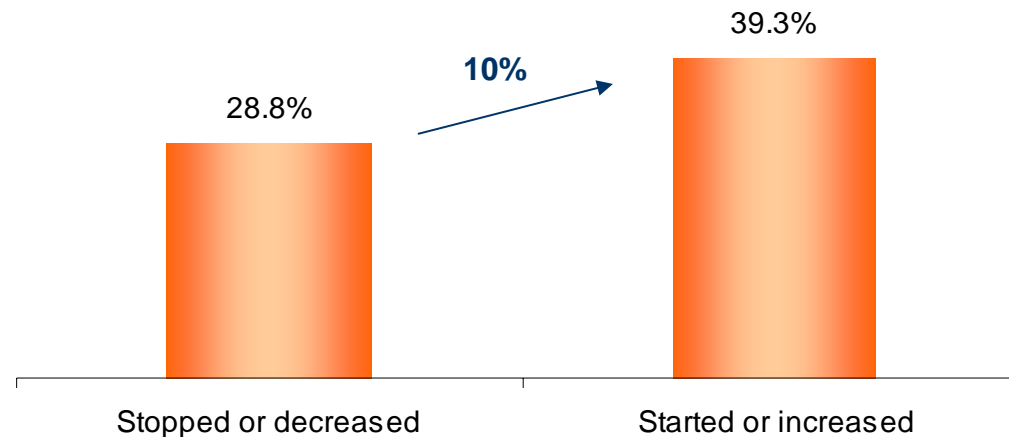


Source: “The Hearts and Minds of Retirement Investors” Published By: ING Institute for Retirement Research 2009



Participant Perspective

Are retirement investors changing their behavior in response to the market downturn? Nearly 40% reported they had recently joined an employer's plan or increased their contributions to an employer's plan, while less than 30% reported stopping or reducing contributions.



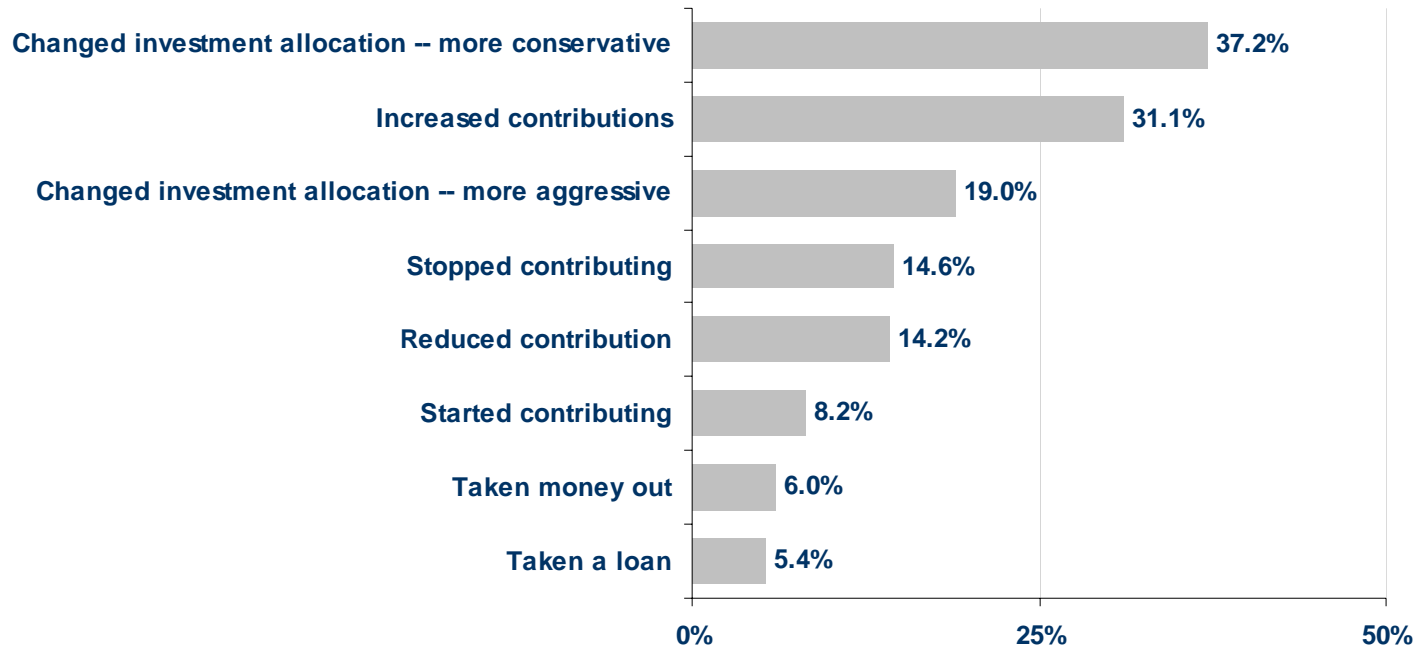
Source: "The Hearts and Minds of Retirement Investors" Published By: ING Institute for Retirement Research 2009



Participant Perspective

Are retirement investors changing their behavior in response to the market downturn?

In the past six months (September 2008 – March 2009) have you....

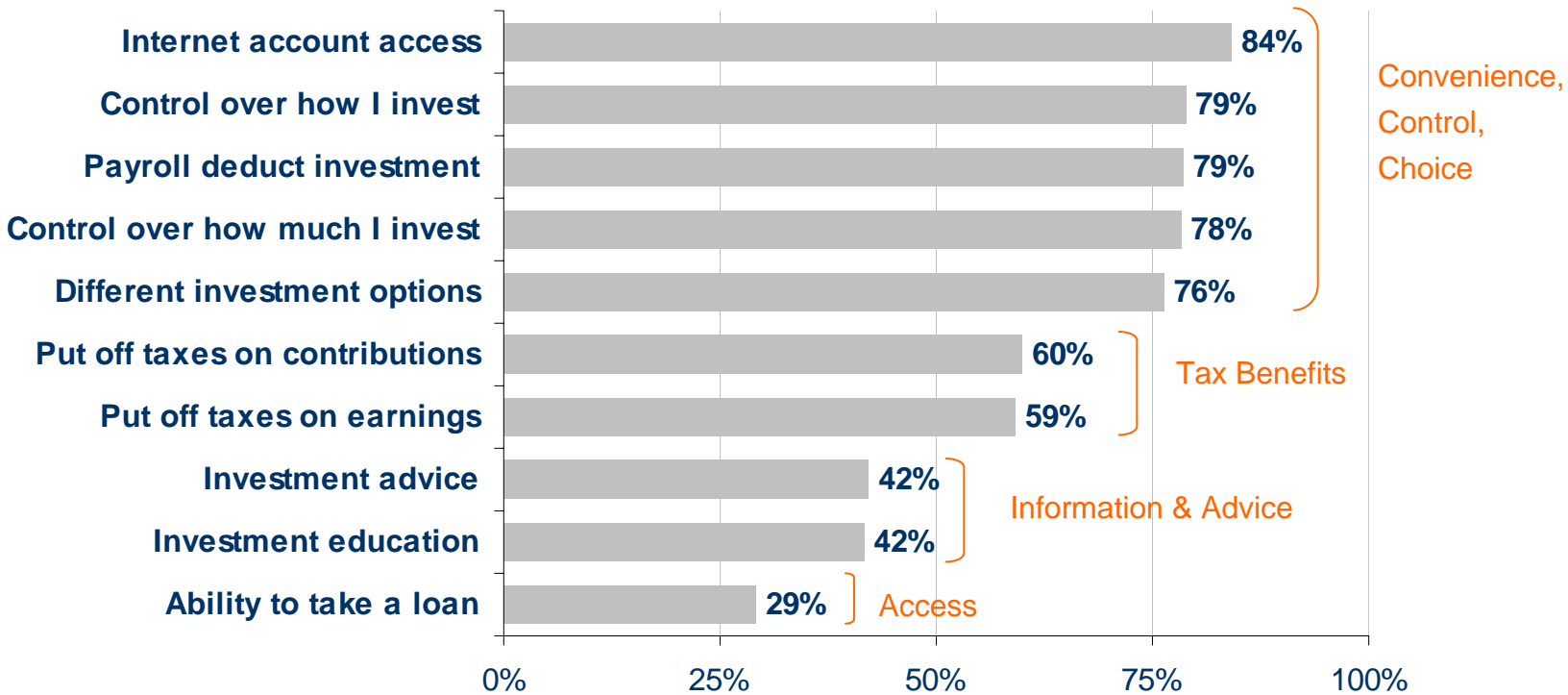


Source: "The Hearts and Minds of Retirement Investors" Published By: ING Institute for Retirement Research 2009



Participant Perspective

Participants value **control and convenience** most about their plan.



Source: "The Hearts and Minds of Retirement Investors" Published By: ING Institute for Retirement Research 2009





What does this Mean for you?

What Does This Mean for You?

- **Reality:** The current economic environment has sponsors nervous about sponsoring a plan, from being too expensive and complicated to potentially liability-inducing.
 - **What can you do?** Demonstrate your value as a financial professional by understanding the different trends in the marketplace and educating sponsors on the tools and resources they can implement to help them better manage their plan or provide reasons to implement a plan.
- **Reality:** Participants are fearful of investing – especially as they near retirement age.
 - **What can you do?** Demonstrate your value as a financial professional by working with a provider that offers a complete employee education program and will partner with you to provide enrollment and ongoing education support.



Summary

- Be aware - significant changes coming:
 - Pricing models
 - Plan demographics due to shifting workforce
 - Continued regulatory requirements
- Order of the day (or year) – earn back the investors’ trust in the plan
- Benchmark your plan – not only fees
- Some sponsors are considering drastic measures – be available and demonstrate your value by understanding the trends in the market
- Make it easier – educate your clients on the new features and services offered within retirement plans to help them better manage the plan
- Leverage ING’s tools and resources to help you grow your business, sponsors better manage their plan and better educate participants



Important Information

Your clients should consider the investment objectives, risks, charges and expenses of the investment options carefully before investing. The prospectuses/prospectus summaries containing this and other information can be obtained by contacting your local representative. Please ensure your clients read the information carefully before investing.

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C09-0806-013 (8/09)

