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State of the 401(k) Marketplace

Cerulli Associates

September 7, 2007

401(k) Market sizing and trends

Hot topics in 401(k)s - Embedded advice, Managed accounts, Rollover IRAs

401(k) Market Dynamics - Business drivers in the (k) market



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401(k) Markets Sizing and Trends

Key Forces Affecting All Retirement Markets

Demographics Trends

Baby Boomers entering retirement mode

Labor market dynamics are changing

IRA and Rollover usage accelerating

New wave of accumulators need attention

Mature Markets

DB plans are going, going, gone

Distributions catching and surpassing contributions

Majority of opportunity is takeover business

RI - Building business around decreasing asset bases?

No big innovations on the horizon to propel the industry

All Retirement Markets

A New Retirement

Staying in the workforce longer - Phased retirements

Longevity and healthcare costs often overlooked

Less dependence on S.S., more on personal savings

Needs for systematic withdrawal planning

Legislative Outcomes

Pension Protection Act 2006

New 403(b) regulations

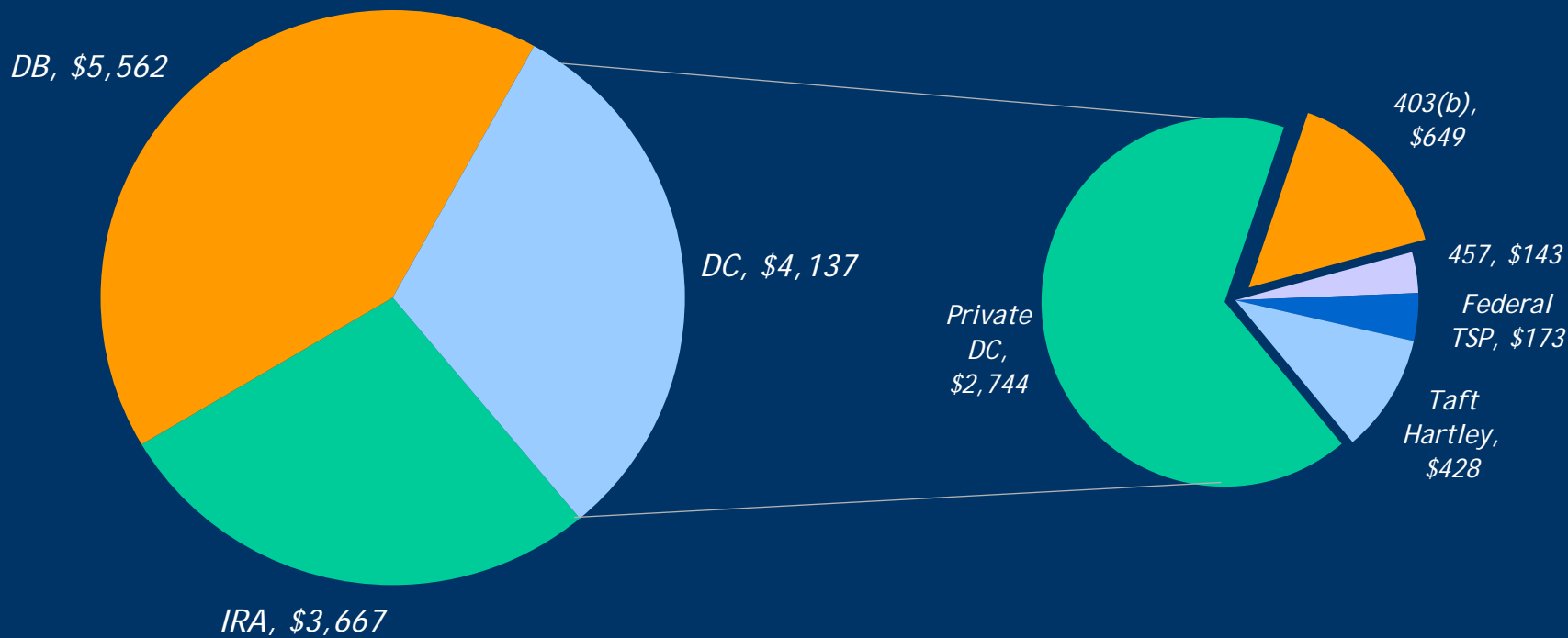
DOL fee transparency projects

FASB/GASB Rules

Retirement Landscape

401(k) is the biggest part of the DC market

Retirement Market Assets (\$ billions), 2006

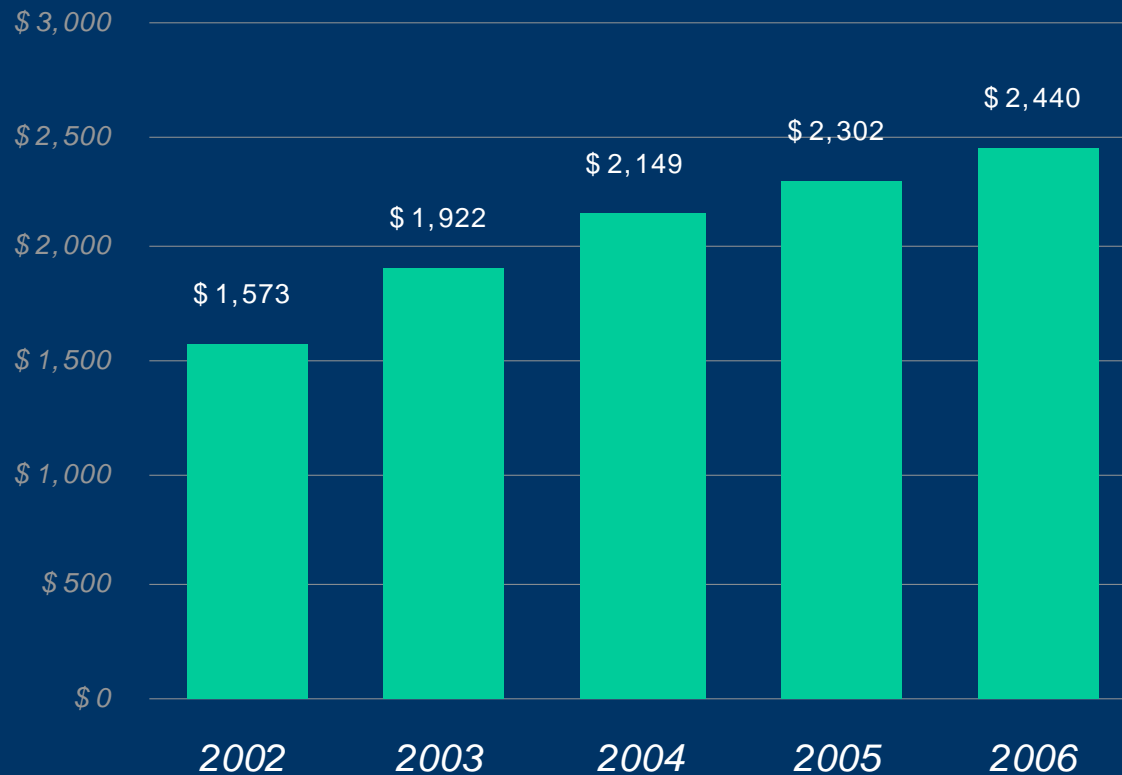


Sources: P&I, US. Census Bureau, Federal Thrift Savings Plan, EBRI, ICI, Federal Reserve, Cerulli Associates

401(k) Asset Growth Driven by Investment Returns

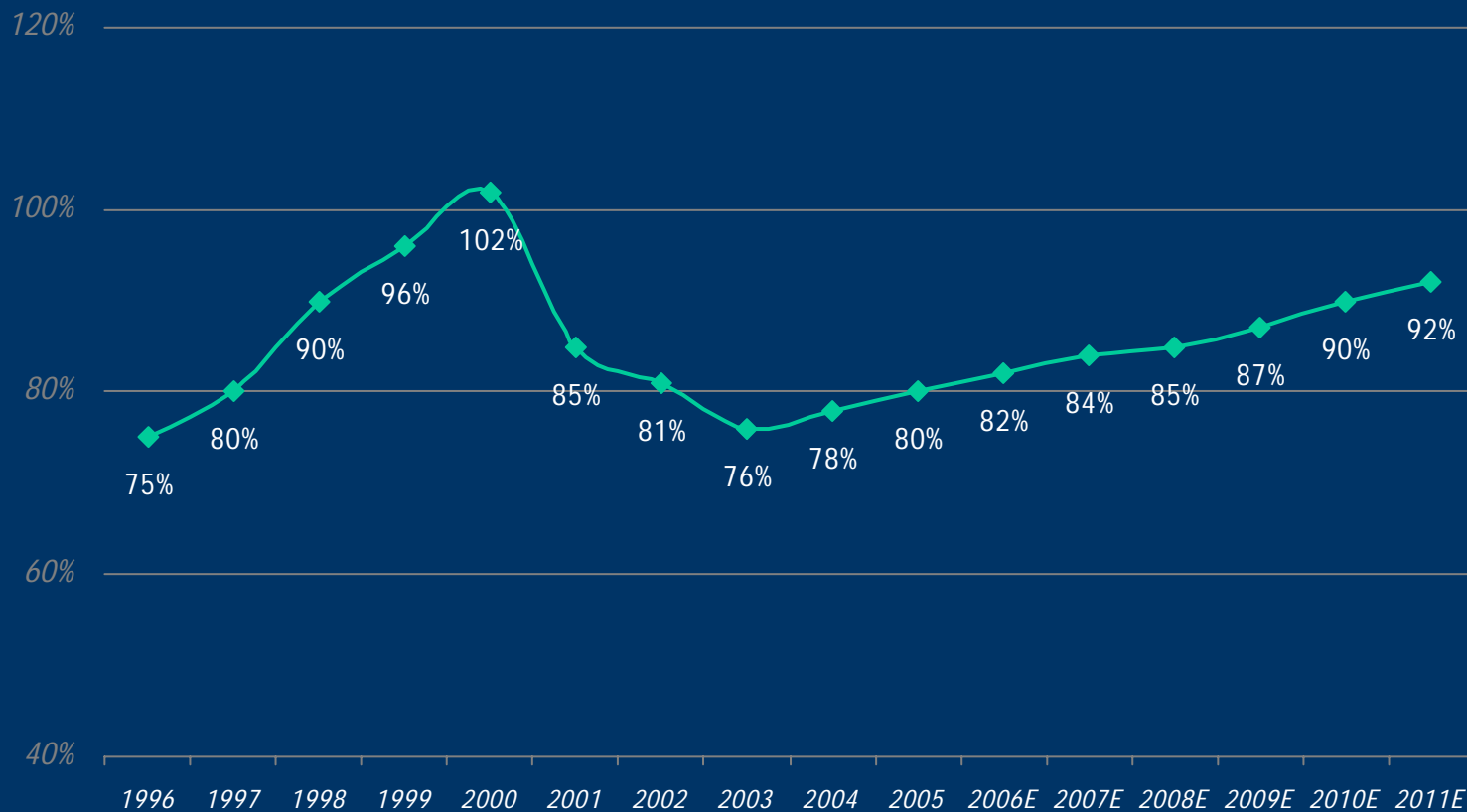
Contributions matching withdrawals: no new sizable plan formation

401(k) Total Assets (\$ billions)

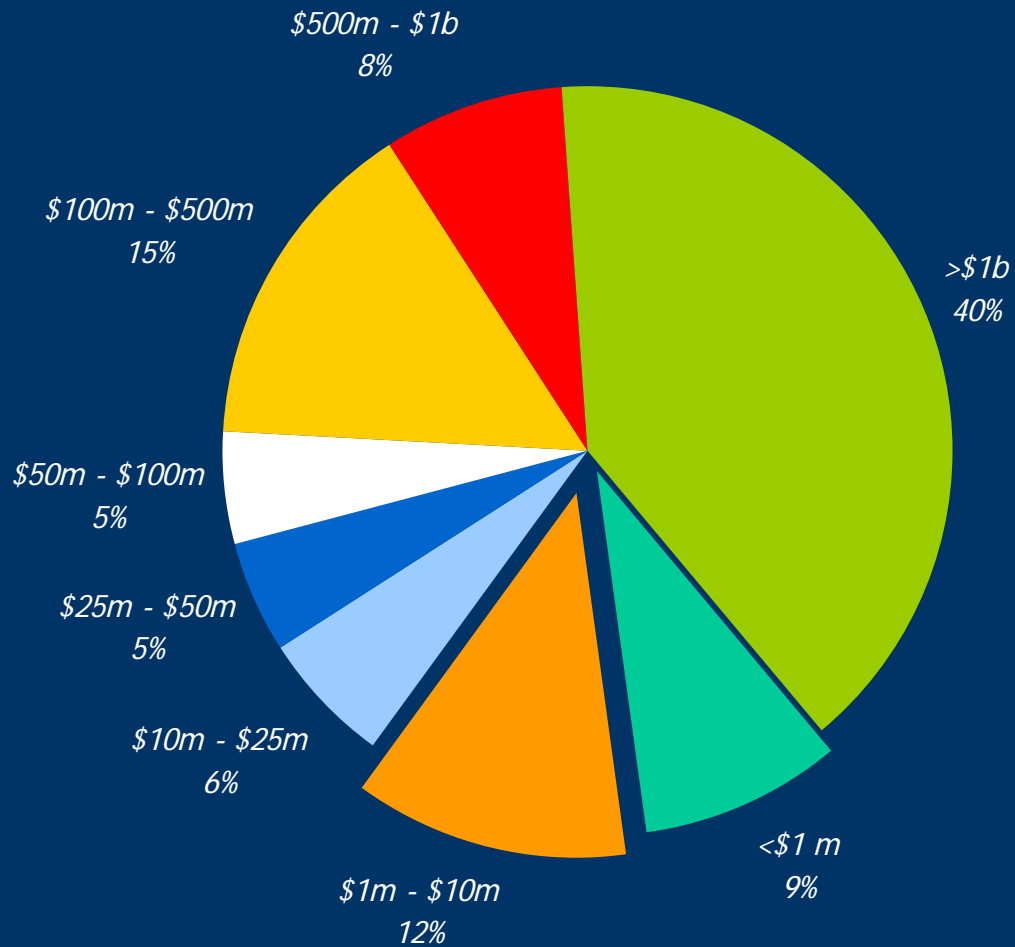


Crossover of 401(k) Distributions to Contributions at Bay for Now

Percentage of Distributions to Contributions



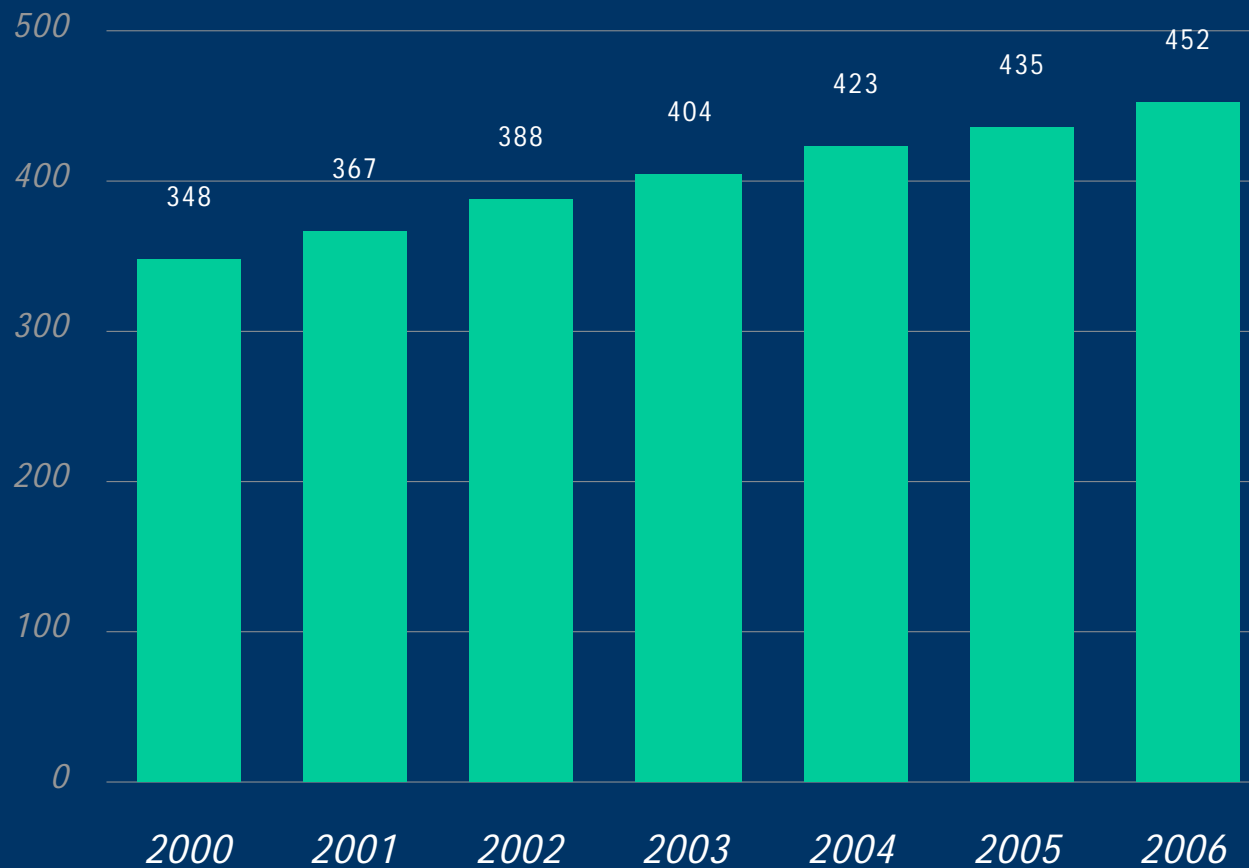
Segment Breakdown of Assets by Plan Asset Size



Aggregate Plan Growth Is Flat

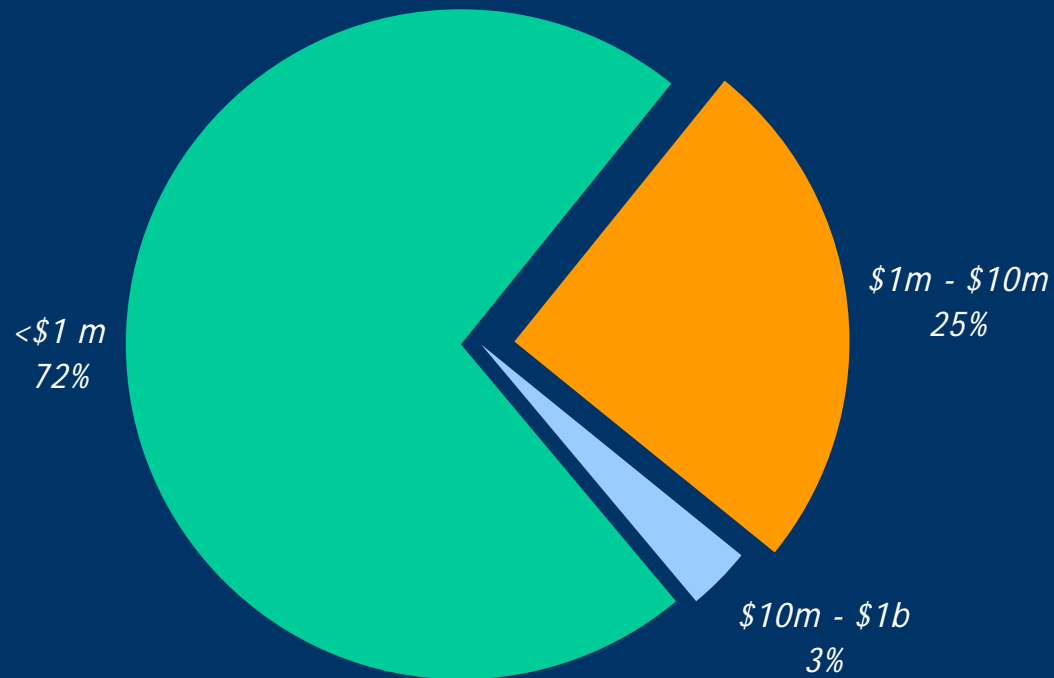
Underpenetrated in Micro segments but highly penetrated in most others

401(k) Total Plans (thousands)



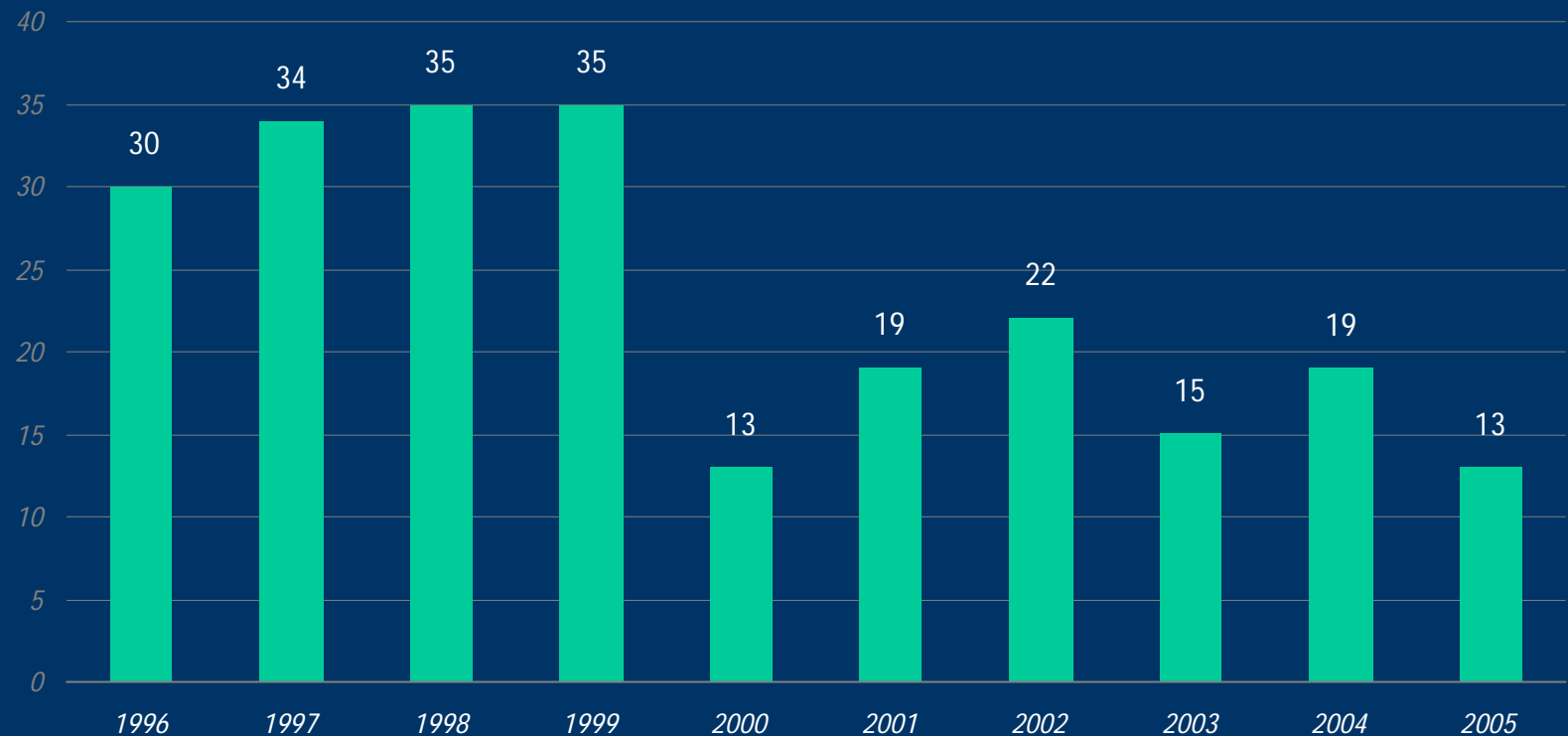
Sources: DOL, Cerulli Associates

Segment breakdown of Plans by Plan Asset Size



Net Plan Growth Shows Slowdown but PPA Could Help

Net 401(k) Plans - 1996 to 2005 (thousands)



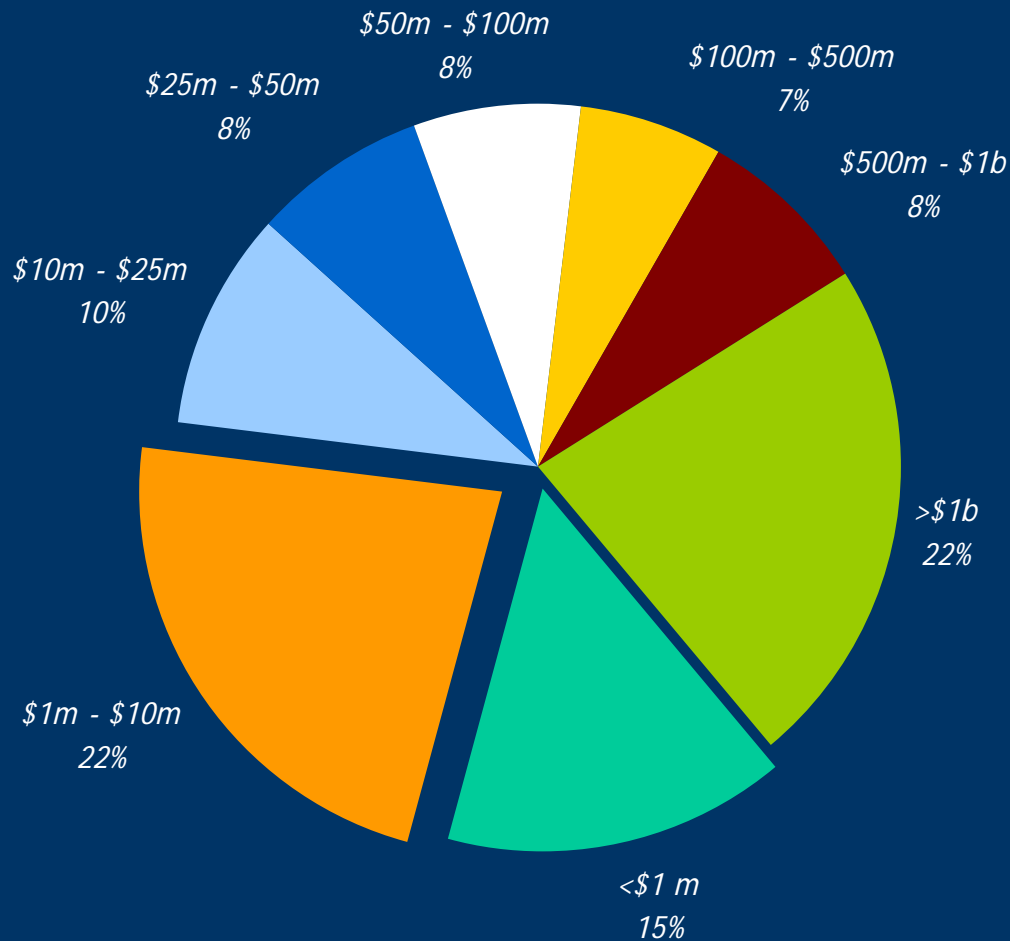
Participant Growth Slower but Steady

On paper auto-enrollment equals participation boom, but time will tell

401(k) Total Participants (millions)



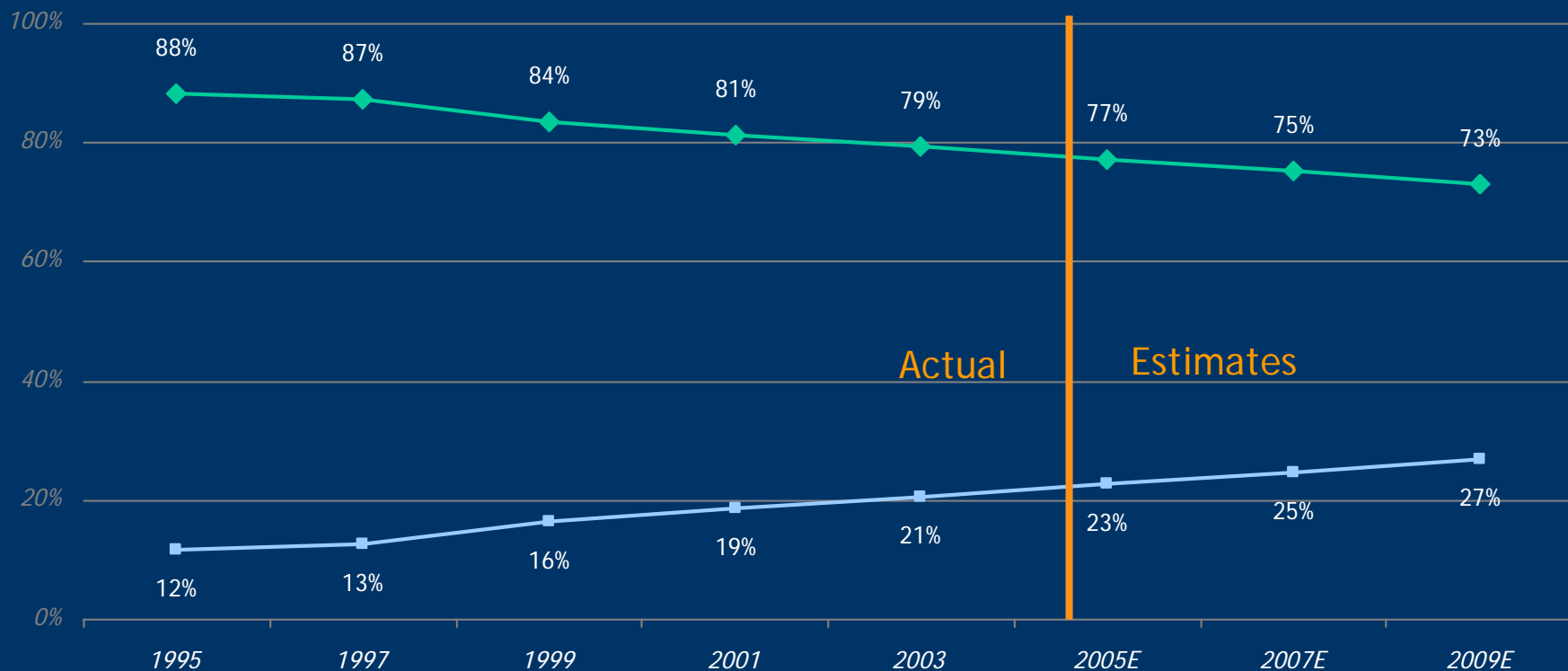
Segment breakdown of Participants by Plan Asset Size



A Disturbing Trend in the Making

Can auto-enrollment reverse the curse?

Participants by Type (as %), 1995-2009



Sources: Cerulli Associates, Vanguard, DOL, Fidelity

◆ Active

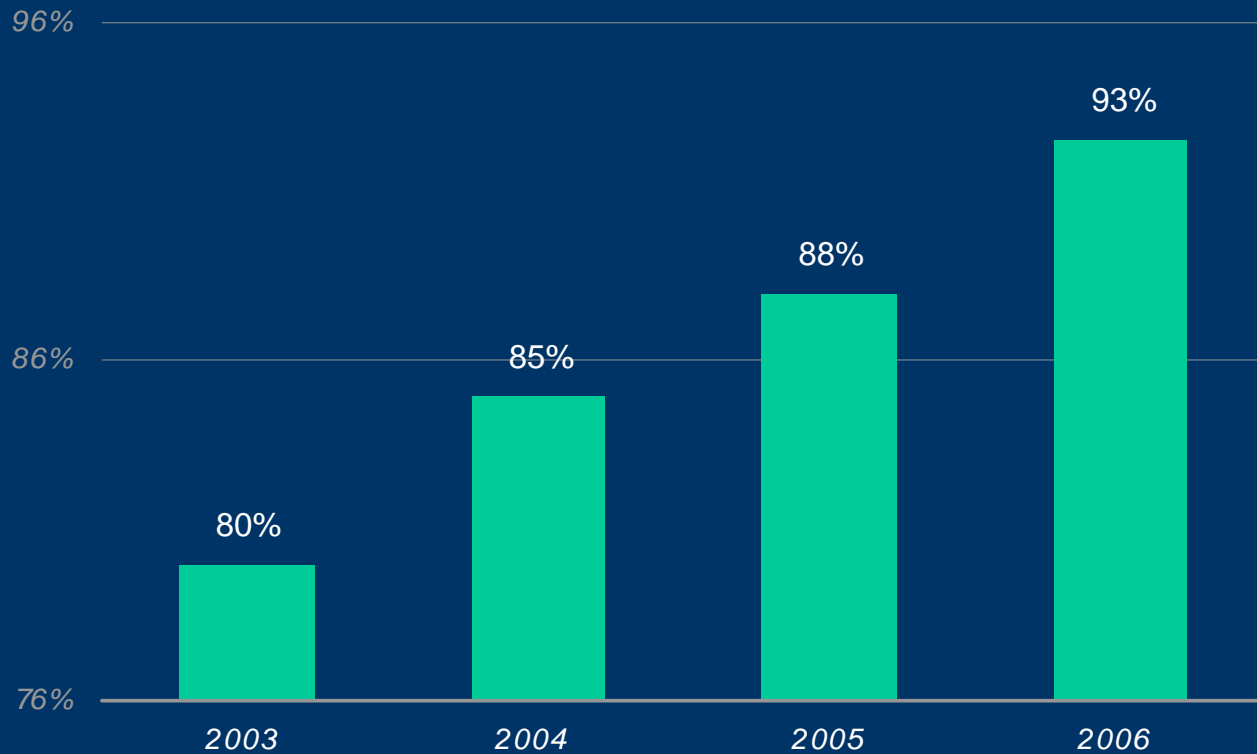
■ Retired & Separated

Industry Turnover - Opportunities in Segments

Size Segment (Plan Assets)	Projected Turnover Rate	Turnover Plans	
		Number of Plans	Assets (\$ billions)
Micro (<\$1M)	7.0%	24,400	\$9.1
Small (\$1-10M)	10.5%	10,100	\$36.2
Mid (\$10-50M)	8.5%	1,100	\$25.5
Large (\$50-250M)	7.5%	200	\$26.6
Mega (>\$250M)	6.5%	100	\$81.9
Totals		35,900	\$179.3

Market Share of Top 20 Providers

Top 20 control most of market - good to partner with these firms



Source: Cerulli Associates

401(k) Market Sizing - Recap & Questions

Despite maturity some reinvigoration from PPA anticipated

Flows stay solid until 2011 and beyond is ?

Number in segments are revealing

Associate with the leaders



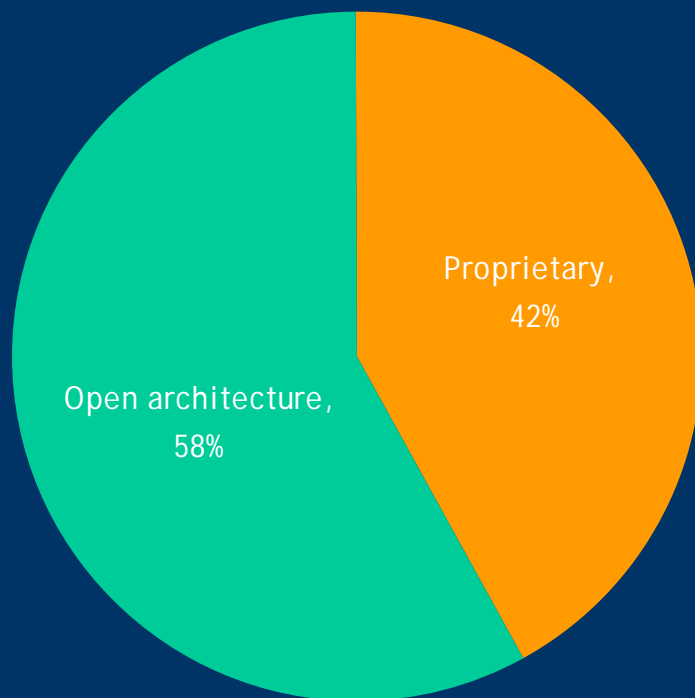


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→ *Hot topics in 401(k)*

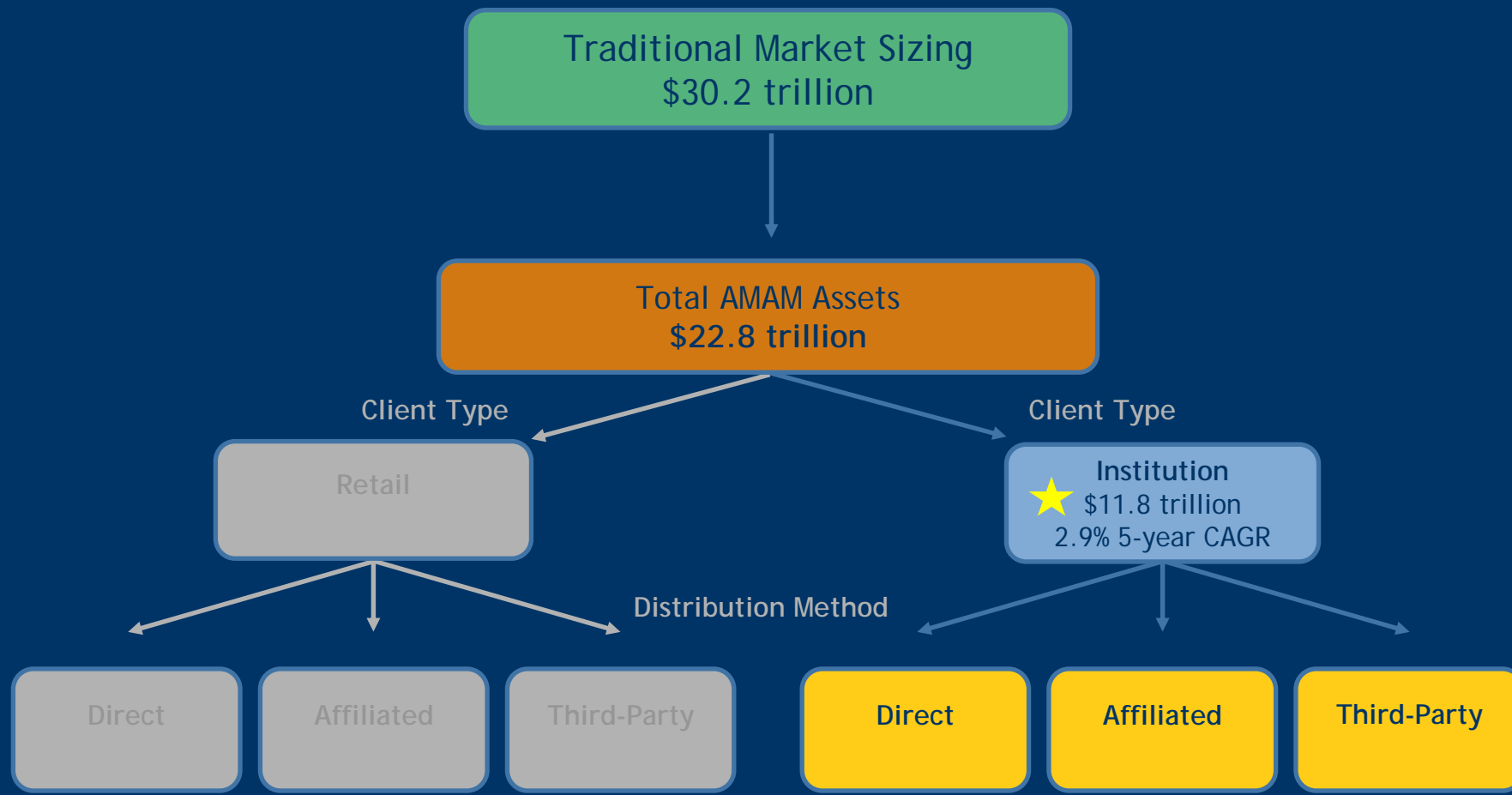
Open Architecture Platforms Proliferating

Percentage of Assets In Proprietary vs. Non Proprietary



Source: Cerulli Associates

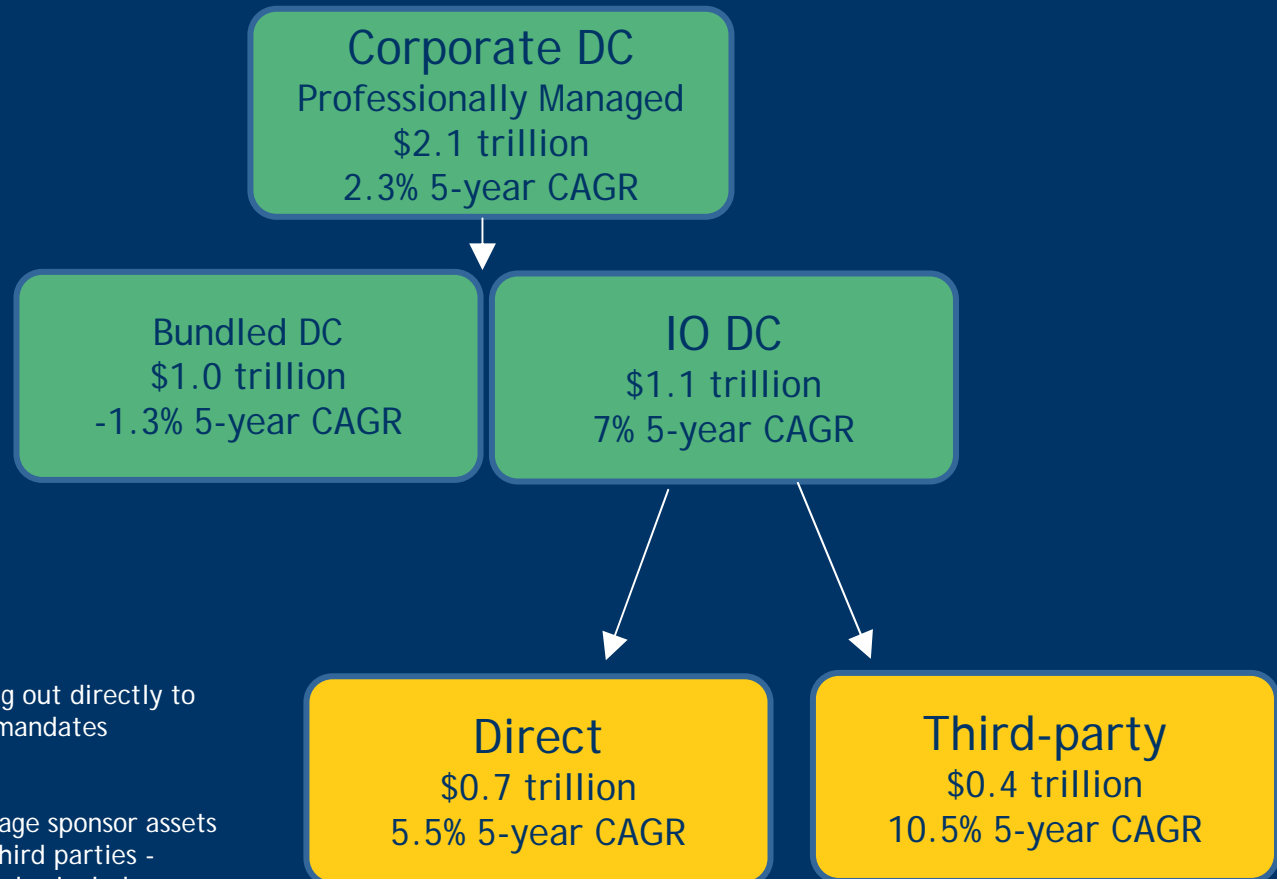
401(k) Markets - AMAM Framework Applied To DC



Direct: Client contact using own personnel
Affiliated: Bundled 401(k), DB custody
Third-Party: Investment consultants, pro buyer

Opportunity in the Investment Only Markets

Growth to continue due to open architecture and pro buyer

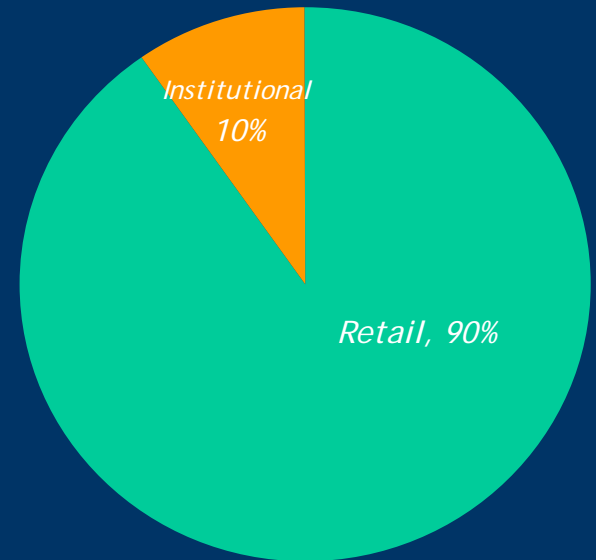
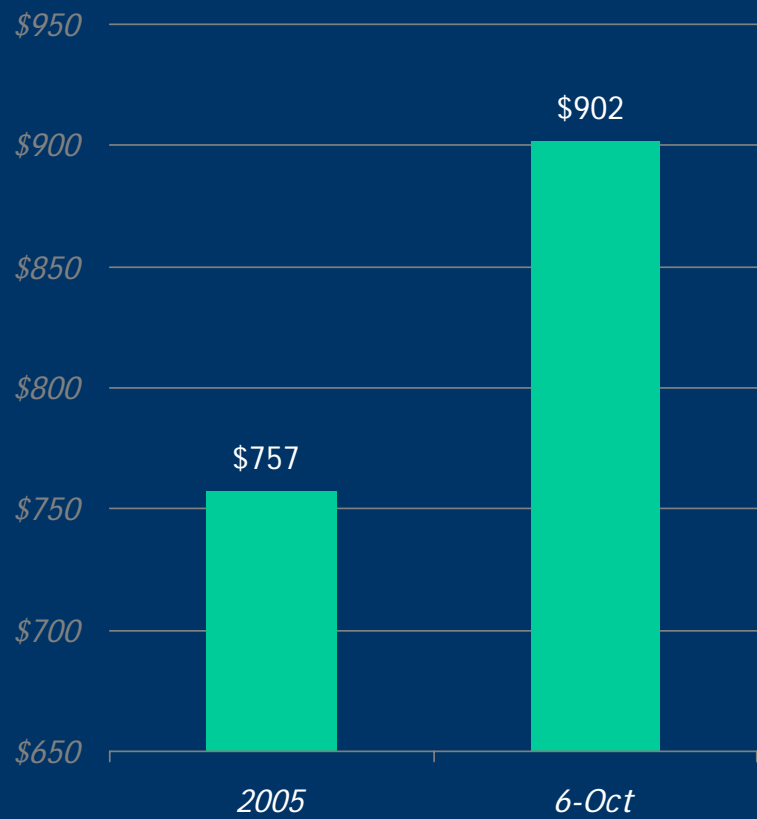


Direct = asset managers reaching out directly to plan sponsors for management mandates

Third party = mandates to manage sponsor assets that are heavily influenced by third parties - primarily consultants but could also include mandates via participation on a platform

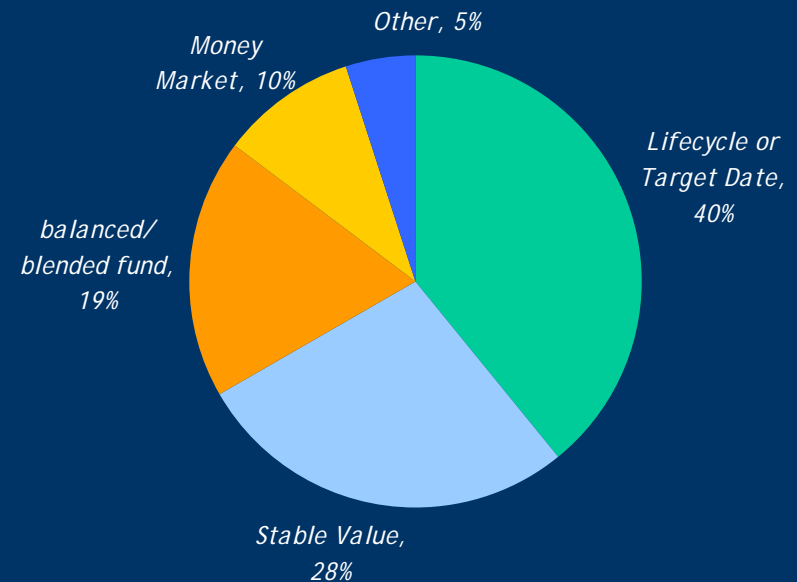
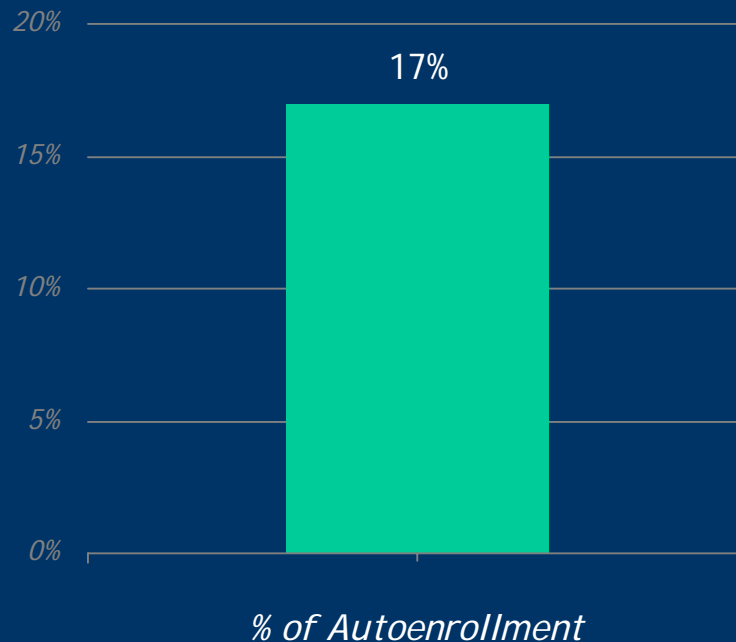
Proliferation of Embedded Advice - Institutional Poised to Grow

Total Assets In Embedded Advice Programs And Where They Reside, 2007



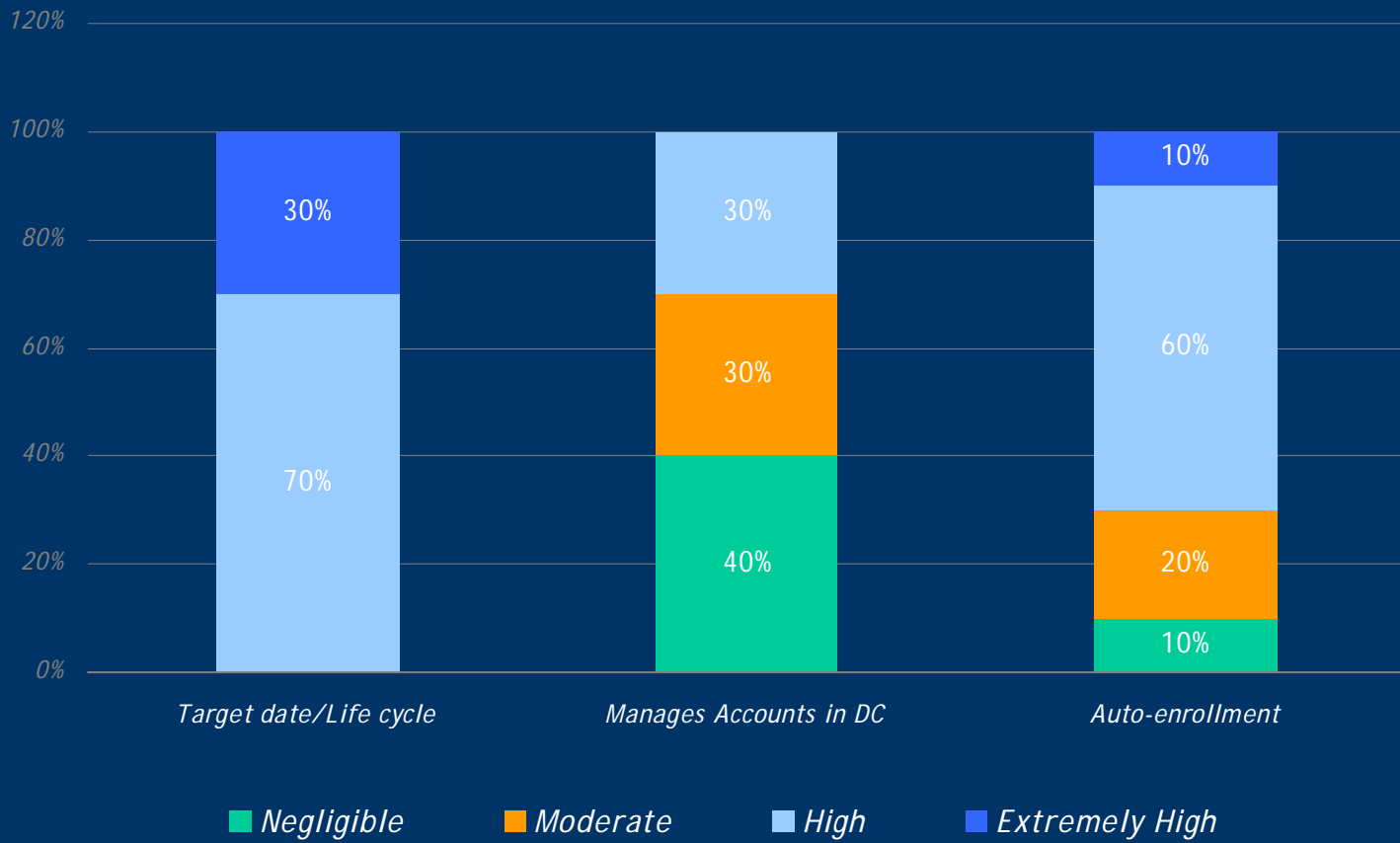
Current Usage of Auto-Enrollment and Defaults

Usage of Auto-enrollment In 401(k) And Current Default Elections, 2006



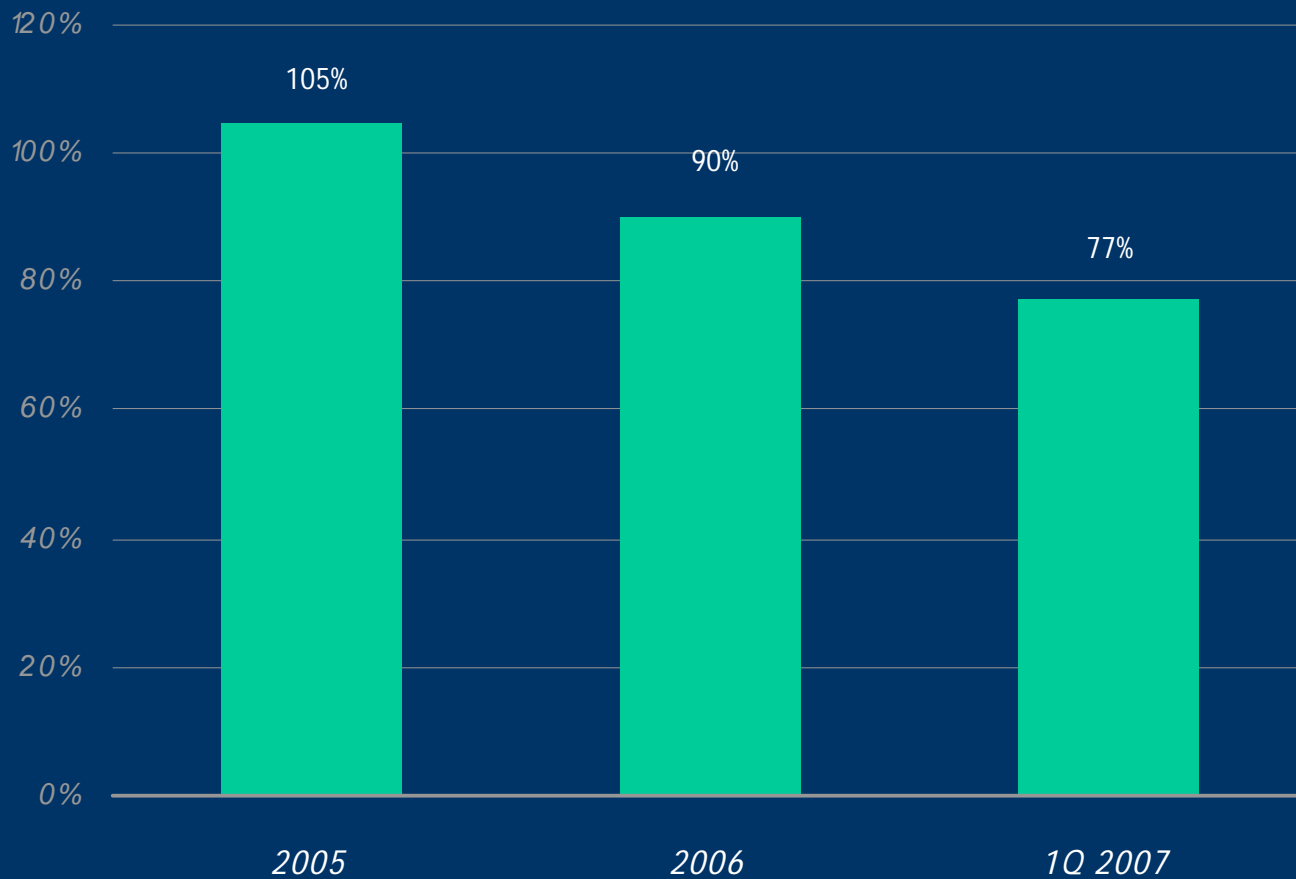
PPA Will Help Grow Target Date Funds in 401(k)

Expected Growth Opportunities Over 5Yrs From PPA 2006



Managed Accounts in DC Plans are Growing Strongly

Annualized Growth of Managed Account Assets In DC Plans

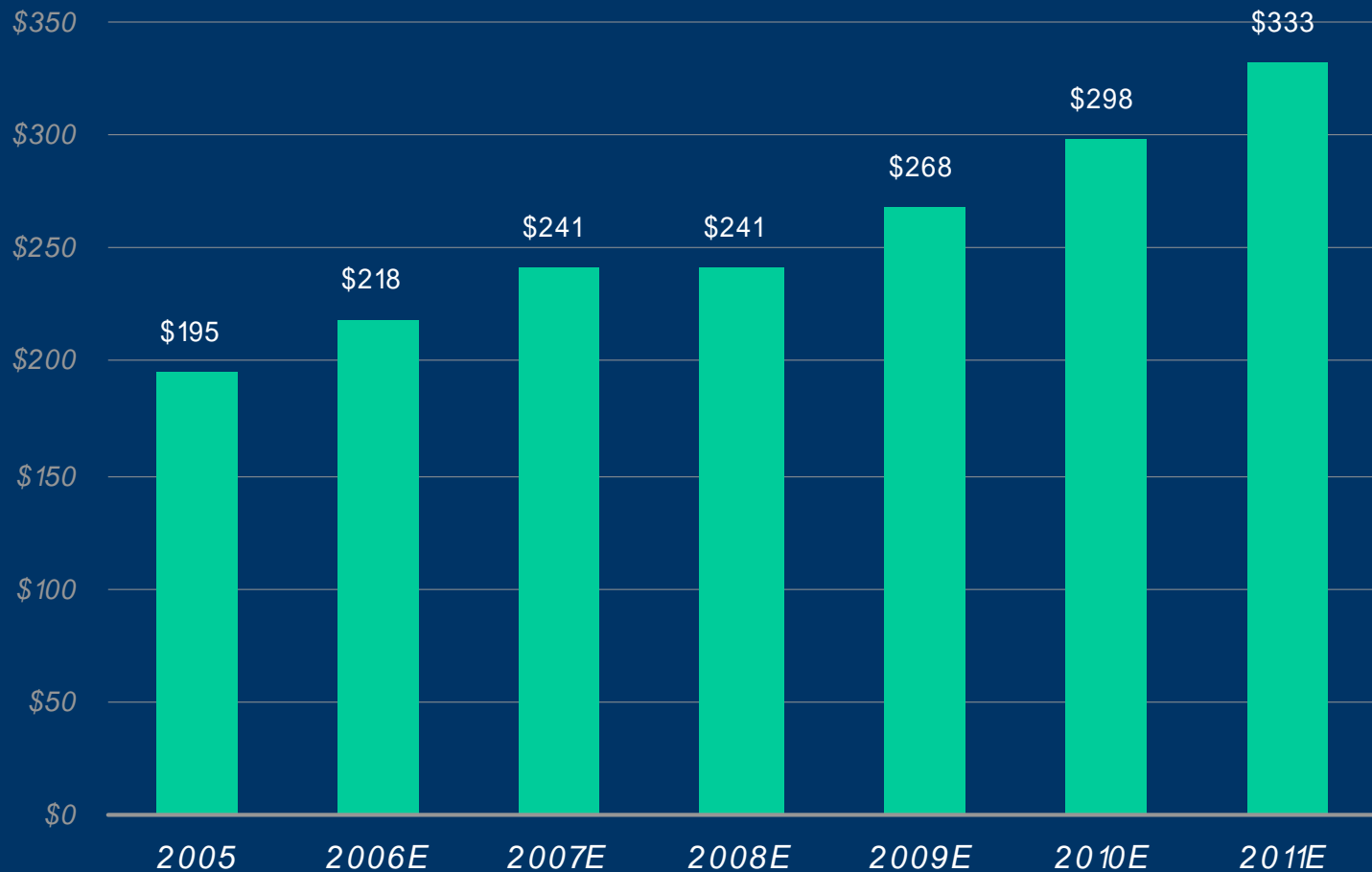


Top Providers of DC Managed Accounts

	4Q 2006 Assets (\$ millions)	1Q 2007 Assets (\$ millions)	1Q 2007 Growth	Annualized 1Q 2007 Growth
<i>Financial Engines</i>	\$8,000	\$10,000	25.0%	144.1%
<i>Guided Choice</i>	N/A	\$10,000	N/A	N/A
<i>Ibbotson</i>	\$8,000	\$9,300	16.3%	82.6%
<i>Pro Manage</i>	\$6,537	\$6,800	4.0%	17.1%
<i>Smith Barney</i>	\$1,394	\$1,453	4.2%	18.0%
<i>Merrill Lynch</i>	\$1,094	\$1,055	-3.6%	-13.5%
<i>Morningstar</i>	\$647	\$800	23.6%	133.7%
<i>PMFM</i>	\$872	\$975	11.8%	56.3%
<i>The Standard</i>	\$480	\$548	14.2%	70.3%

Growth In IRAs Coming From 401(k) Rollover

Total Assets In Rollover From 401(k), (\$ billions)

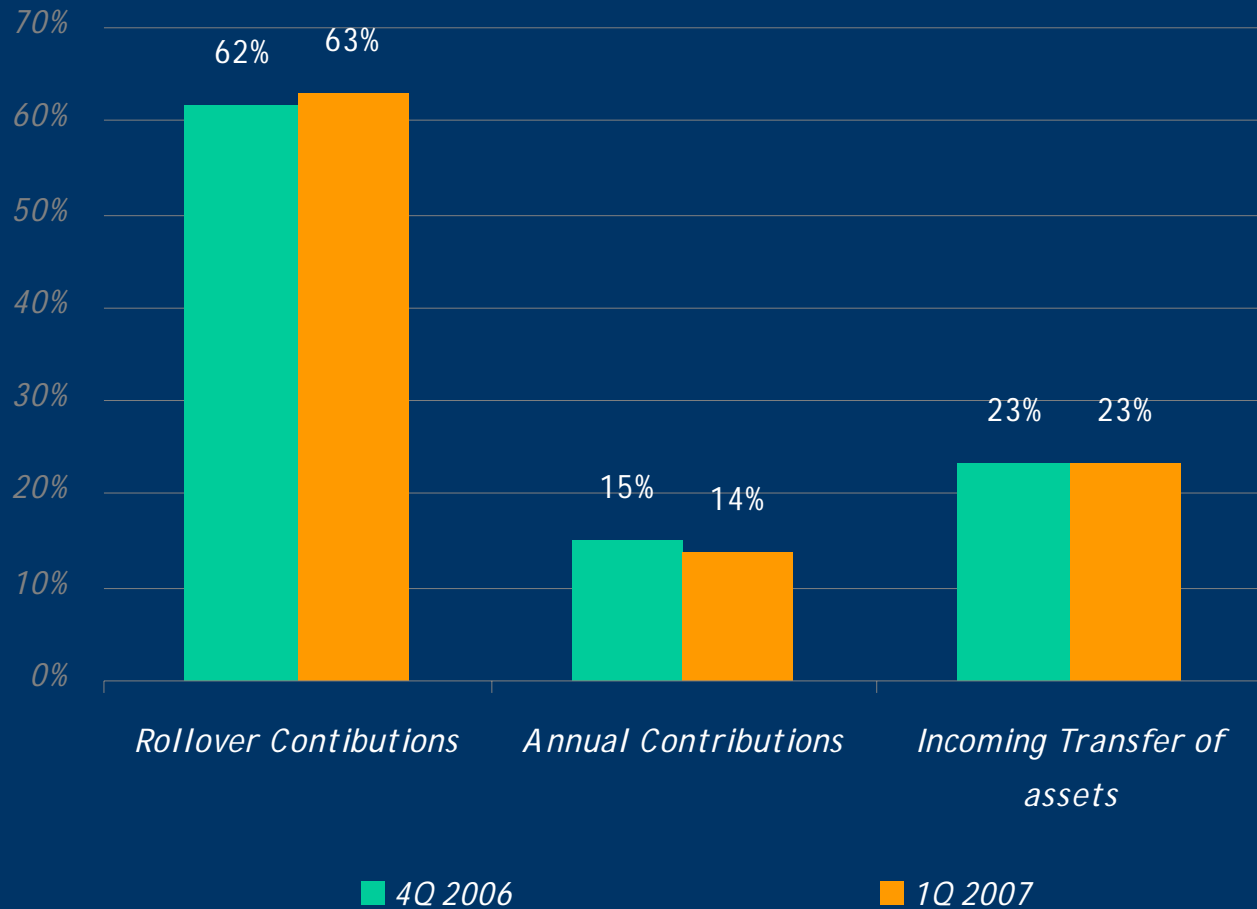


Why do clients seek the assistance of advisors?

	<i>% of Responders (2007)</i>
Making sure their money will last through retirement	88.9%
Feeling a professional would do a better job managing my finances	75.3%
Getting close to retirement	74.1%
Rolling over a retirement plan	69.1%
Life event changes (e.g., marriage, divorce, death of a spouse)	56.8%
Investment performance was below expectations	54.3%
Handling an inheritance	43.2%
Changes in financial objectives	35.8%
Buying, selling or passing on a family business	17.3%
Facing a financial crisis such as serious illness, layoff	17.3%
Planning for a birth or adoption of a child	9.9%
Caring for aging parents	7.4%

Majority of Sales in IRA Market Comes from Rollovers

IRA Sales From Sources



Leaders in the IRA Marketplace

	1Q 2007 (billions)
Fidelity Investments	\$570.6
Charles Schwab	\$302.4
Wachovia	\$164.1
Smith Barney	\$150.0
Bank of America	\$52.0

Hot Topics in 401(k) - Recap & Questions

IO DC business is booming via open architecture platforms

Lifecycle funds and Managed Accounts set to heat up in 401(k)

Lots of money moving from 401(k) via IRA rollover





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401(k) Market Dynamics

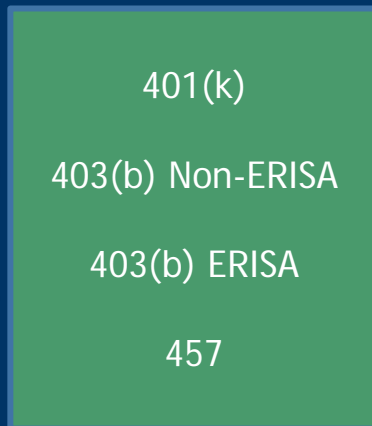
Provider business drivers

Nontraditional Model for Looking at Retirement Markets

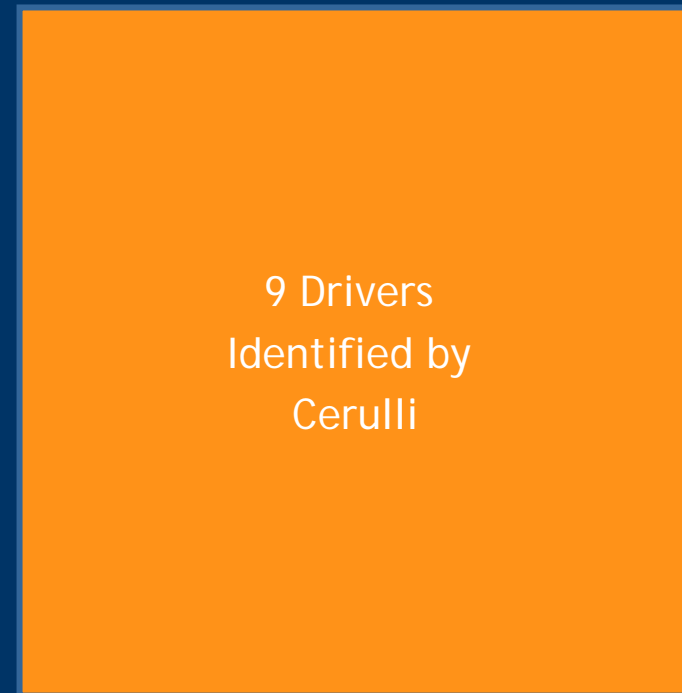
Applying business driver lenses offers more complete views of segments

Provider Business Drivers Applied To Each Segment

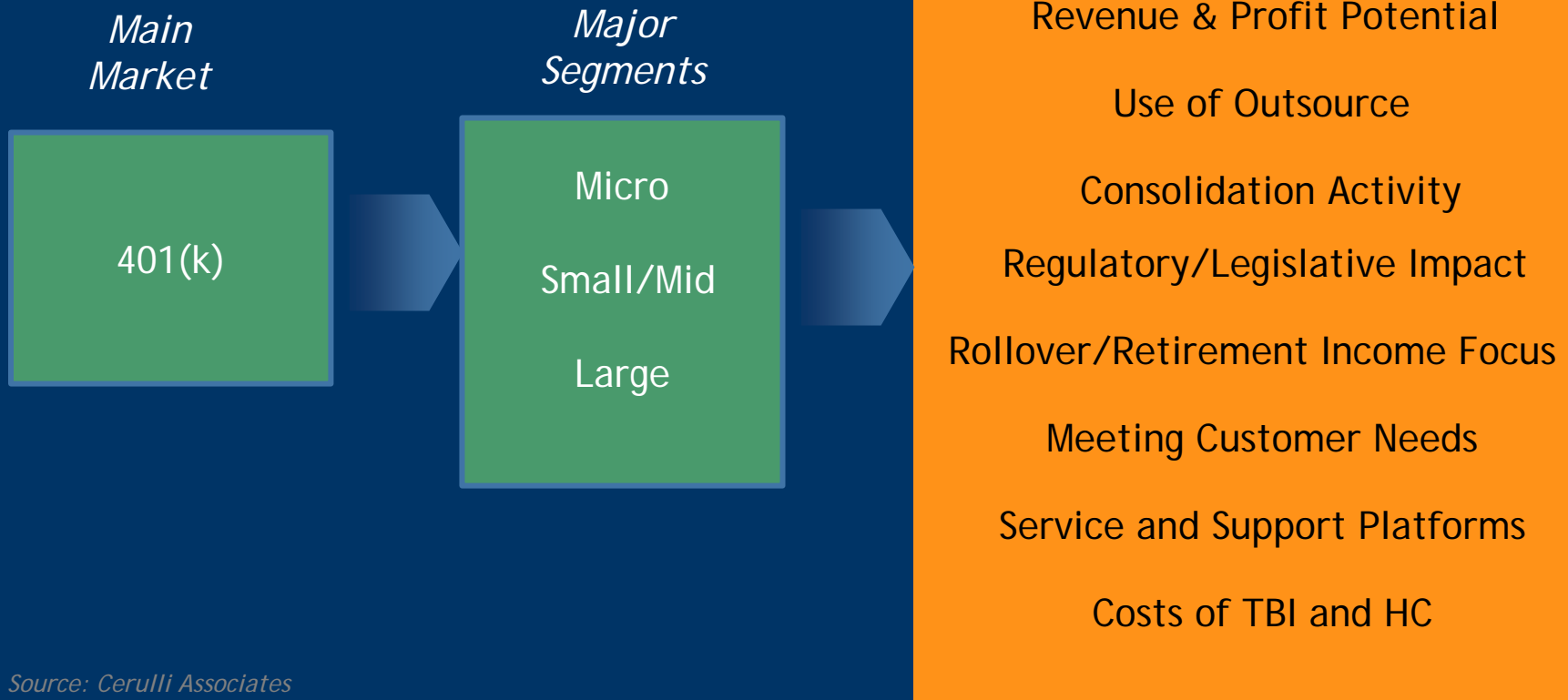
Main Markets



Major Segments



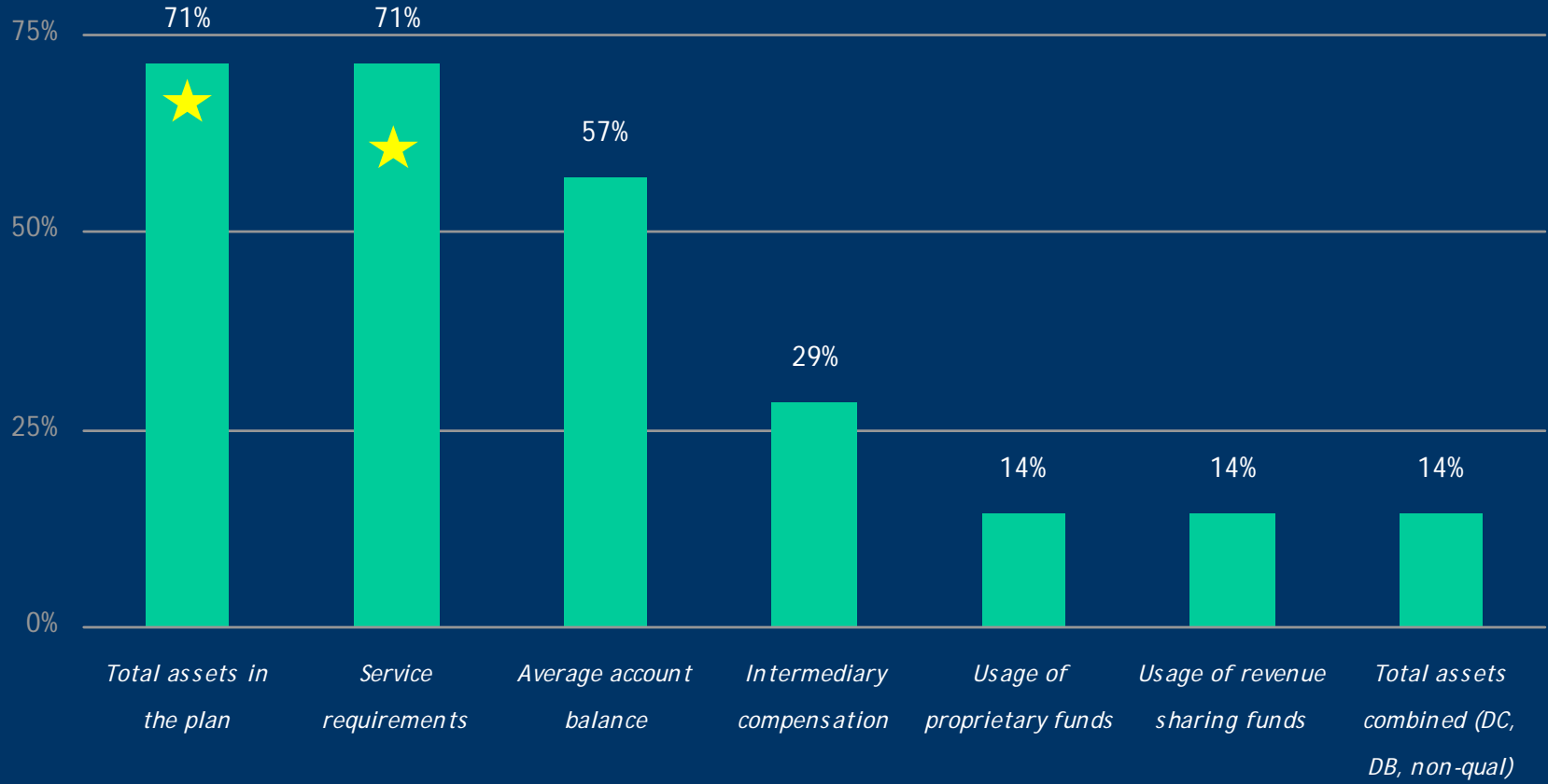
Provider Business Drivers Applied to Each Segment



Revenue and Profit Potential: Sponsor Service Requirements Very Important

A high maintenance client will drain profit potential

Rate Importance When Defining a 'Profitable' 401(k) Plan

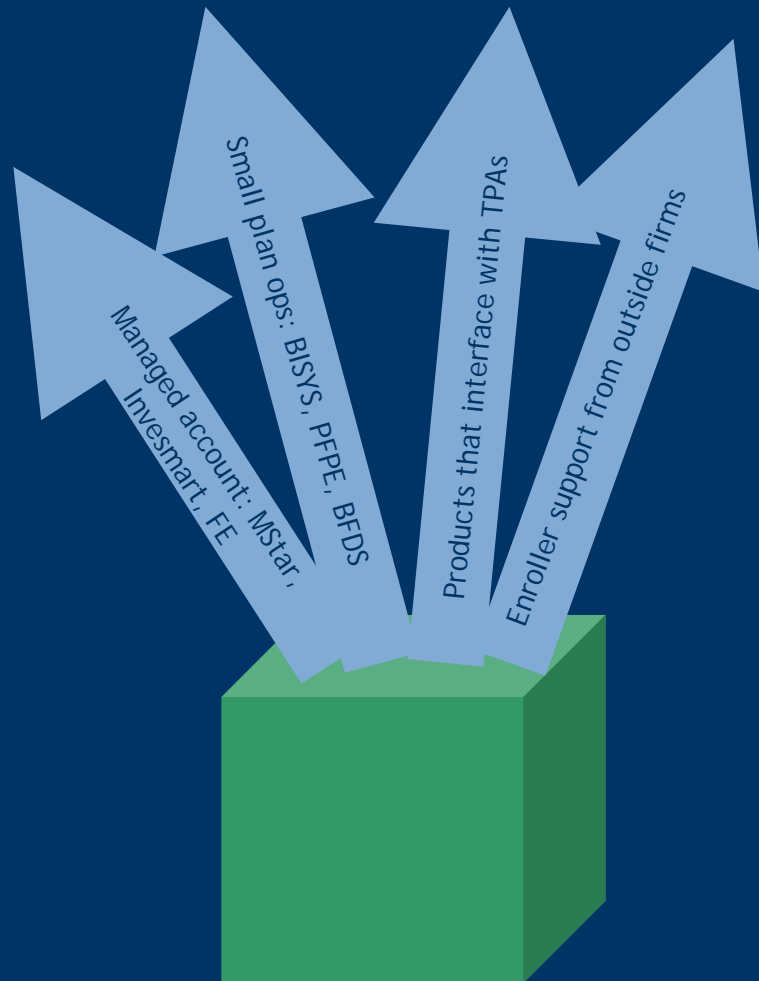


■ Highly important

Sources: Cerulli Associates

Use of Outsourcing: Arrows in Quiver Deliver Complete Service Experience

It takes a village to deliver 401(k) programs to sponsors



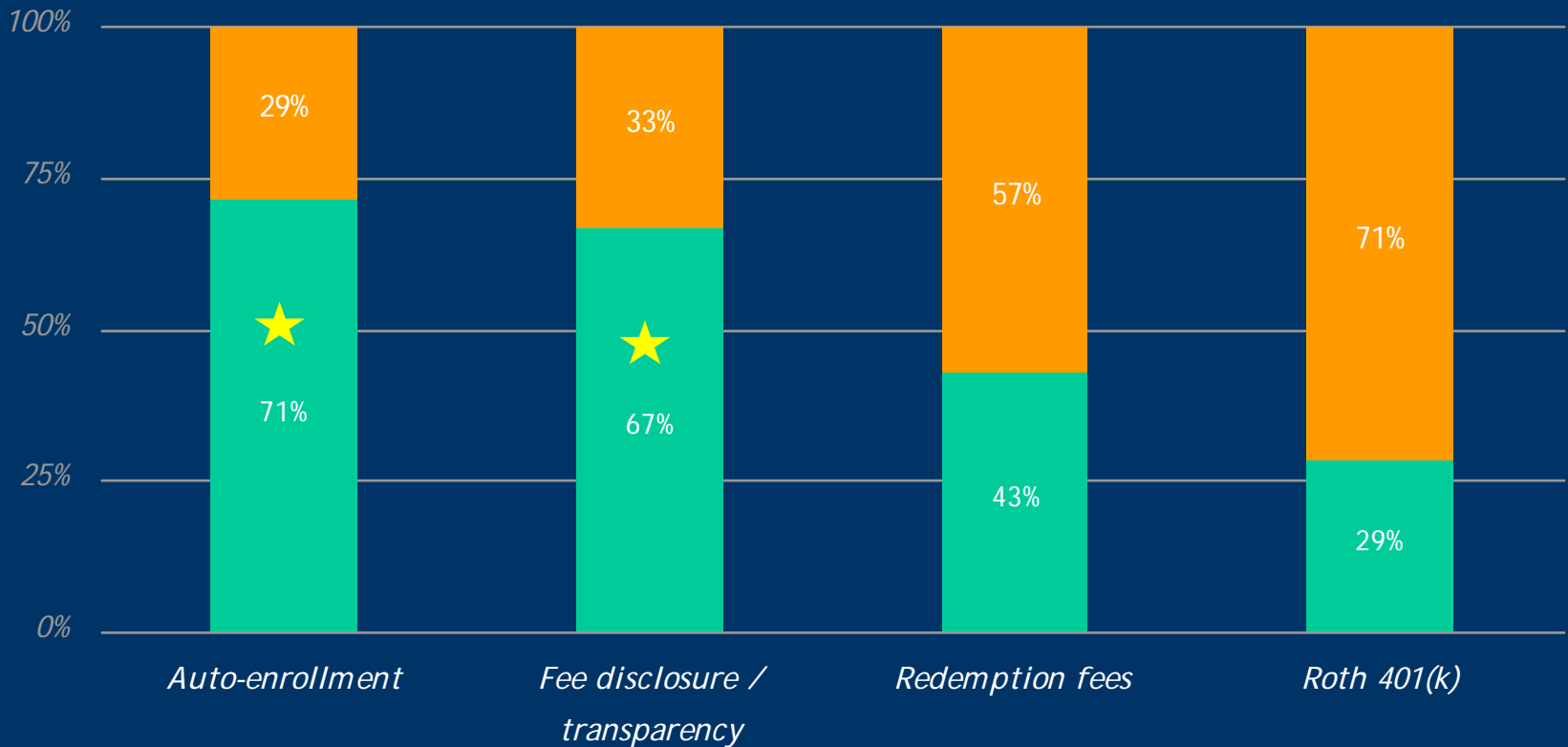
Target =
Value-Add Services



Legislative & Regulatory Impact: an Eye Toward Auto-Enrollment and Fee Transparency

Fee disclosure and auto-enrollment are the focus of legislative & regulatory impacts

Regulatory Impacts on Provider Firms



Strong impact

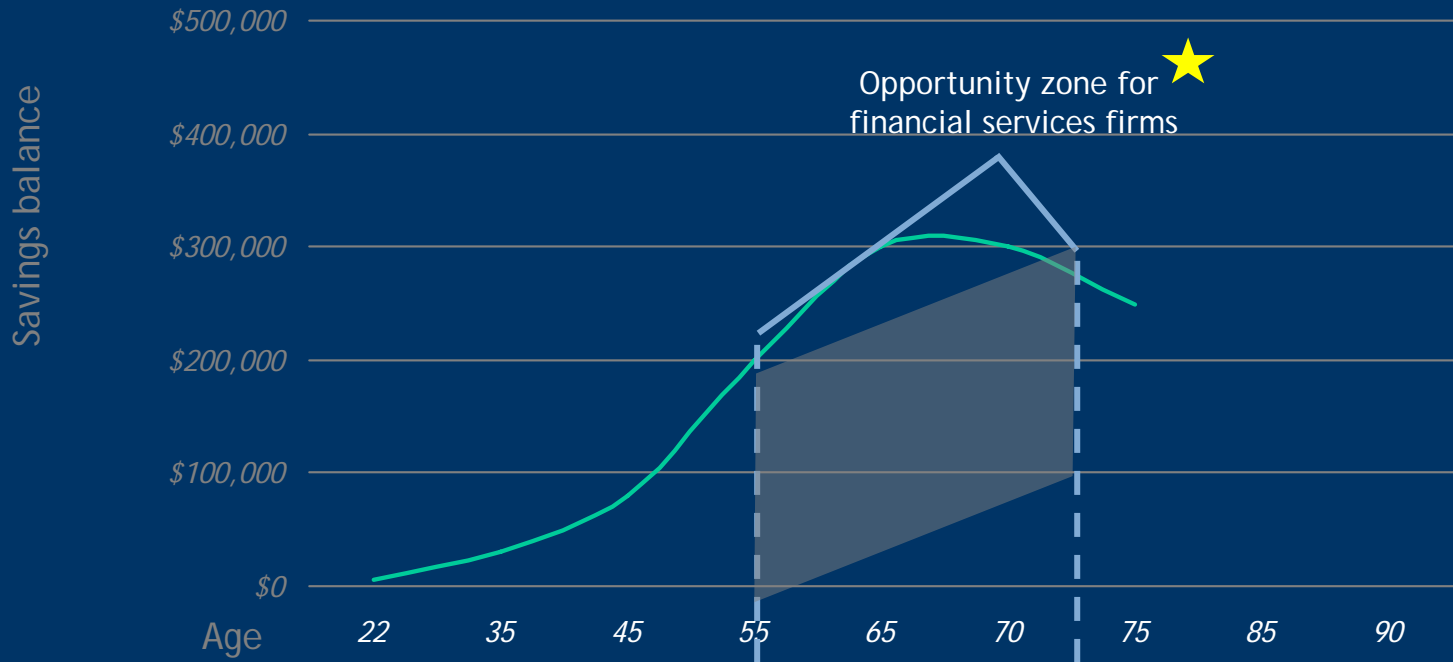
Moderate impact

Source: Cerulli Associates

Rollover/Retirement Income Focus

'Wild West' of Rollover/Retirement Income Markets

No dominant RI leaders and the field is wide open

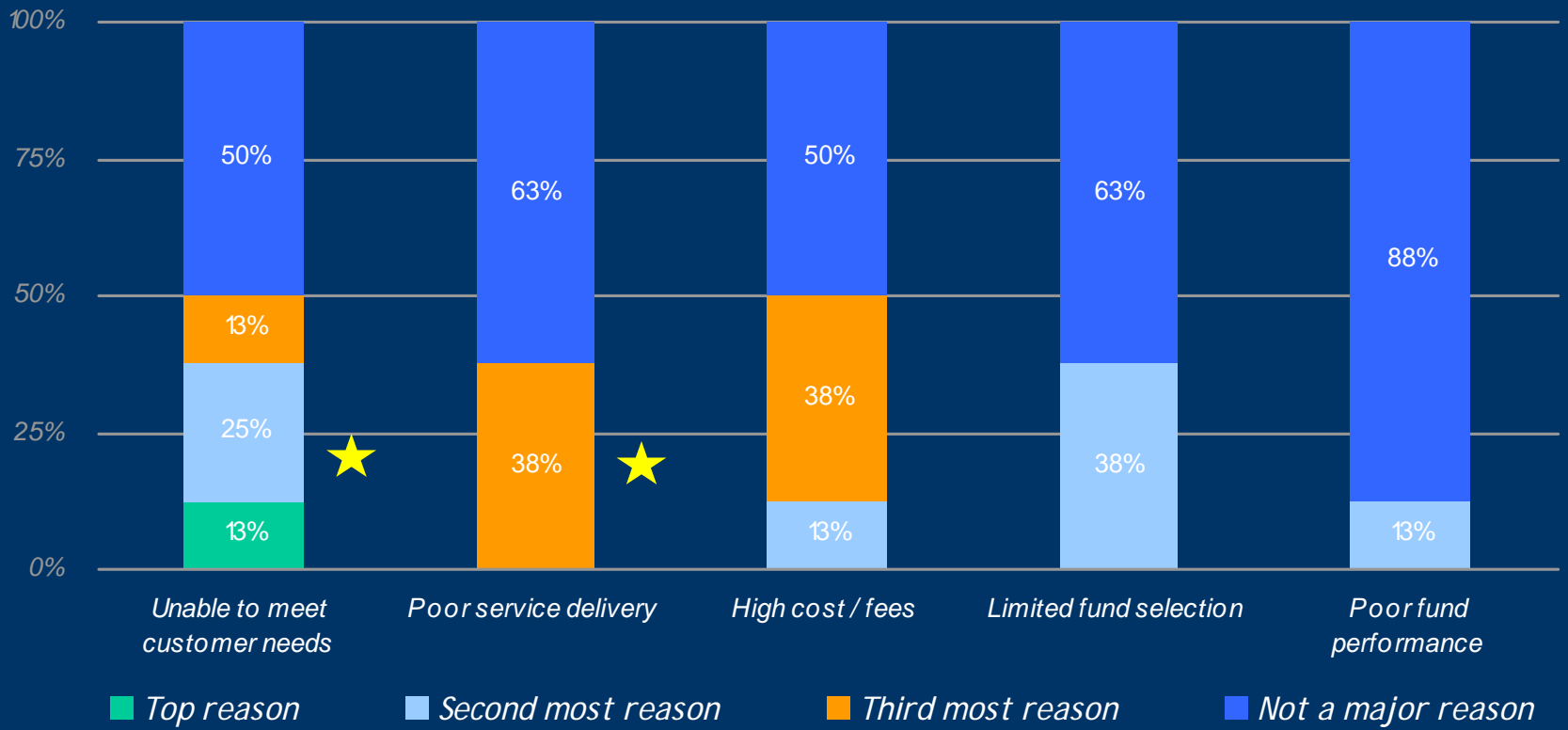


	<i>Growing retirement assets</i>	<i>Customer retention battle ground</i>	<i>Retirement income and wealth protection</i>
<i>Main retirement products</i>	401k, 403b, 457, IRA, mutual funds	No clear winners	Longevity insurance and income denomination
<i>Main players best position</i>	Asset managers and mutual fund firms	No clear winners	Insurance companies

Meeting Customer Needs: Challenges

Meeting customer needs are a struggle but not poor service?

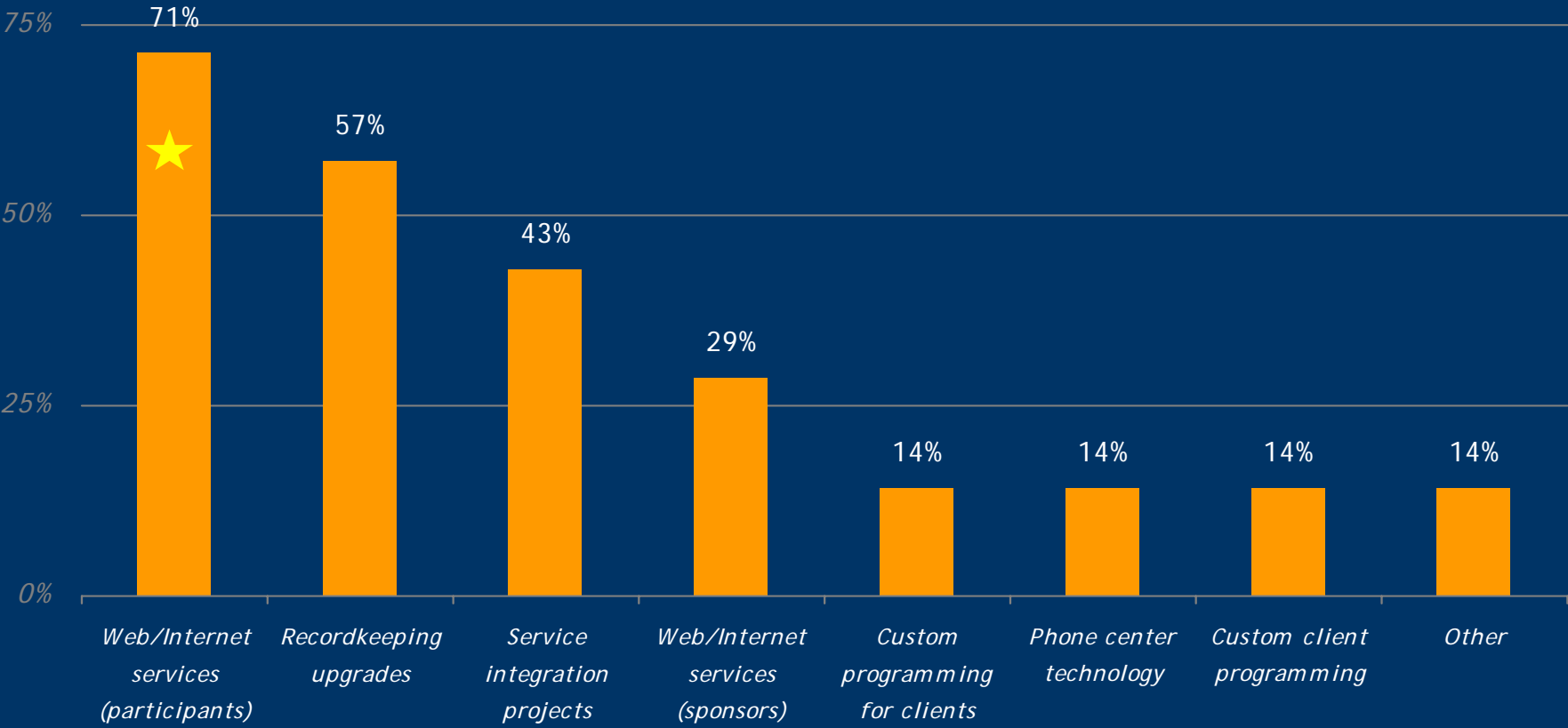
Main Reasons for Losing Client 401(k) Business



Technology Delivery: Spending on Technology Shows No Abatement

Budget focus on participant-related solutions

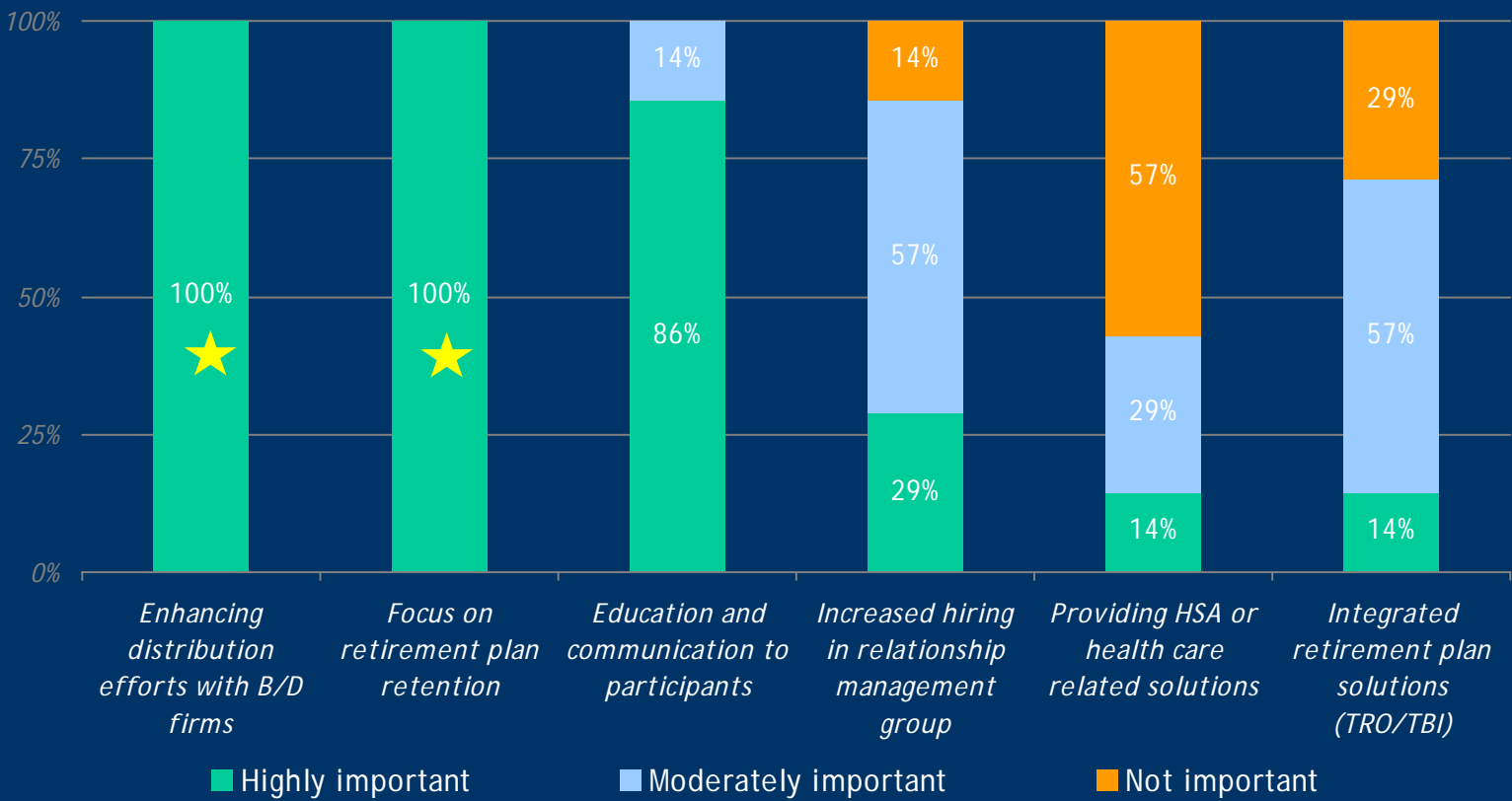
Where Will Majority of Technology Budget be Spent in 2007?



Service And Support Platforms: Broadening Distribution & Building Walls Around Customers

Keeping what you have and building partnerships for getting more

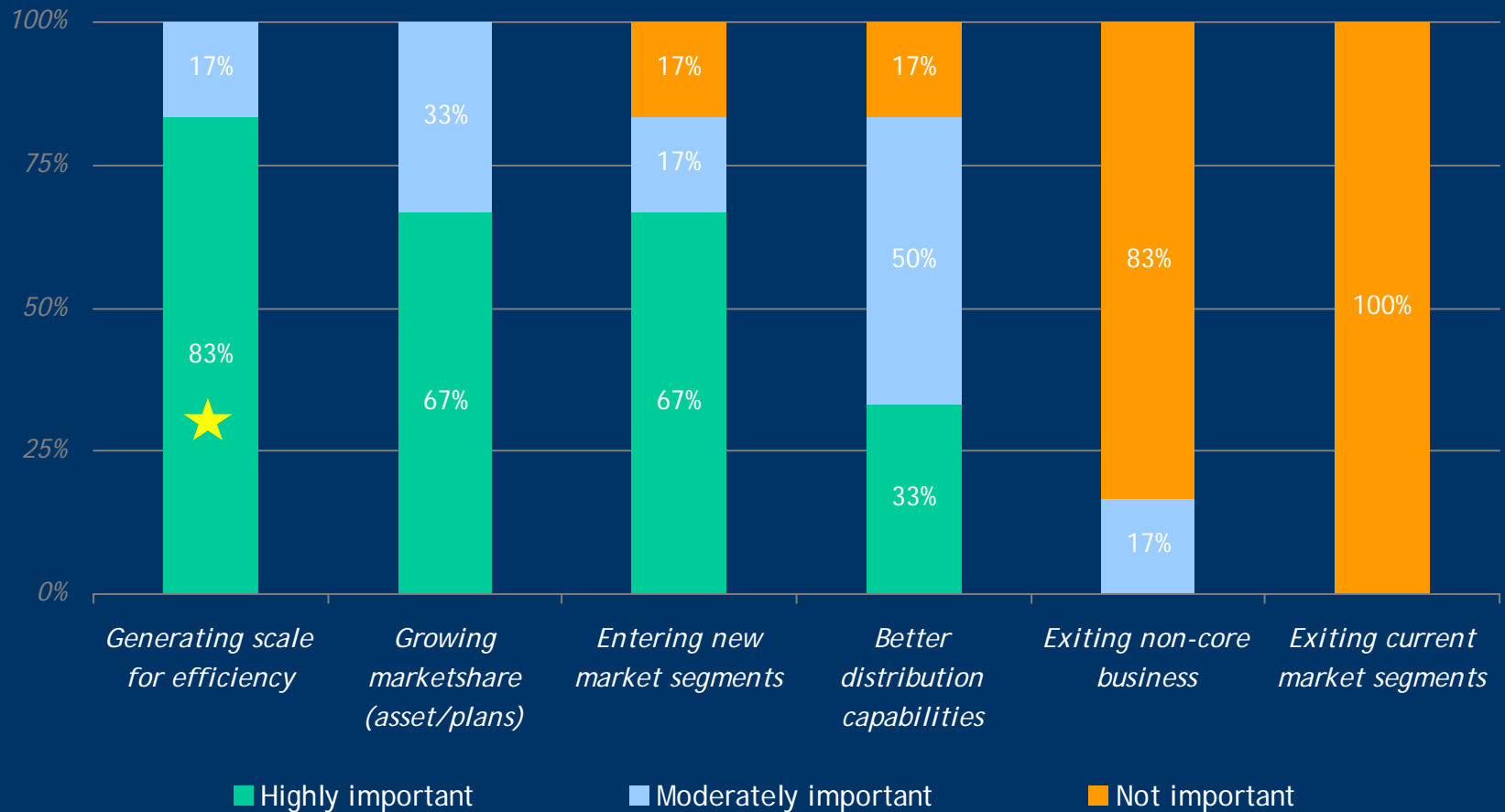
Importance of Following Product and Service Initiatives at Provider Firms



Consolidation Activity: Building Business Scale to Survive

Growing scale and marketshare are key plays in the consolidation game

Factors driving consolidation plans of providers



Costs of Healthcare and TBI: Retirement Benefits Not Primary Employer Concern

Knowing your place in the benefits pecking order

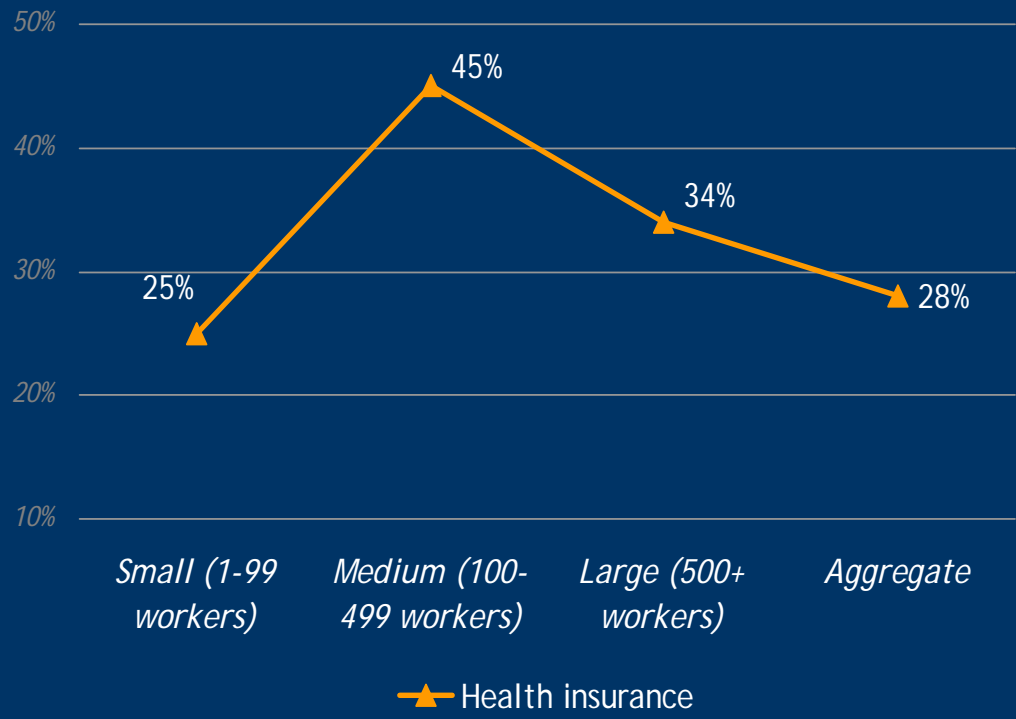
Know your place

% Change (1991-2005) in Employers Hourly Cost of Employee Benefits (Healthcare)

Managing big drivers of benefit cost care is THE #1 benefits priority of employers

Talking smart about both healthcare and retirement benefits are key

Marrying integrated solutions are differentiators for retirement plan providers



Sources: Cerulli Associates, GAO

The Model in Action

Analyze key implications of primary provider business drivers

Provider Business Drivers

ALL 401(k) Segments	Revenue and Profit Potential	Use of Outsource	Legislative & Regulatory Impact	Rollover/ Retire Income Focus	Meeting Customer Needs
Issue	Sponsor service requirements as important as total assets in the plan	Expert outside resources needed to deliver complete customer service	Auto-enrollment and transparent fees dominate mindsets of providers	Market for RI products is wide open Many firms strategizing on where to succeed	Most providers struggling with meeting needs
Solution	Assess service needs against service delivery	Determine build or buy resource and service needs	Be always prepared for changing requirements	Design or seek platforms for asset capture	Balance needs of constituents (participant, sponsor, intermediary)

Apply Micro, SMid, or Large 401(k) Segments

401(k) Market Dynamics - Recap & Questions

A model for analyzing 401(k) segments

Drivers help to understand dynamics

Discover better retirement plan packaging opportunities



Opportunity amidst market maturity

Answering the need for better measuring metrics
AMAM ferrets opportunities

A model for looking at segments

Markets within markets
Better 'program' packaging

Need to look at 401(k) in different light

Evolution to revolution
End-to-end solutions

Further Information

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