

DB, DC, Retail Differences?

- What is The 401(k) Company doing relative to the retirement income issue?
 - Mostly under study
 - Focused on the “balancing act” between process and product
- Process
 - Pros
 - Participate in variable upside (more leverage)
 - Eliminate credit risk (in exchange for market risk)
 - The larger net worth people can, essentially, manage for a variable-sized estate
 - Cons
 - Outliving your assets
 - No gain for sharing risk of mortality
 - Algorithms driving process engines often prove unrealistic at best, totally off base at worst
- Product
 - Pros
 - Greater certainty that one will not outlive income
 - Simplicity of planning, budgeting, and managing assets
 - Potential gain inherent in pooling of mortality risk
 - Cons
 - Credit risk
 - Not participating in market upside
 - Inflation risk, unless inflation-adjusted
- Other important considerations
 - Product and process can be a combination – not either/or proposition
 - Expense is a powerful (if not the most powerful) financial variable that can be controlled in retirement and should not be ignored in constructing income schemes
 - Health care (immediate and long-term) is the big unknown cost and must be a major component of planning