

mPowerSM

EBRI-ERF Policy Forum

“The role of investment advice in getting today’s employees ready for retirement”

December 5, 2002

mPower.

Andrew Huddart, CEO



● ● ● About mPower

mPower is a leading provider of investment advice solutions

- “Wall Street meets Main Street”
- Institutional investment methodology and cutting-edge technology / network connectivity
- Multiple distribution channels
- Independent / objective
- Retirement and multi-goal

Founded in 1995, located in San Francisco and London.



● ● ● An Important Mission for Advice Providers:

Answer participants' two most pressing questions:

- *How much should I save?*
- *How should I invest my money?*

Simply providing information to satisfy 404(c) can't keep employees out of harm's way



mPower Personal Advisor

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mPowerSM

What are your plans for retirement?



Whatever your dreams for retirement, mPower can take you there.

Get Advice Now



Get concrete advice. Consider alternatives. Manage your portfolio.

start

More About You



The more we know, the better advice we can give. Update information about your specific investments. Tell us more about your circumstances and retirement goals.

start

Other Resources

Research Center

Perform your own research on specific funds using our extensive database.

Education

Learn more about 401(k), investing, and retirement.

[Plan for New York inheritance](#) | [Build a vacation fund](#) | [Coach my college football team](#)

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mPower Personal Advisor

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Forecast
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Research Center
Education

Action Plan EXPLAIN THIS PAGE

Congratulations! You have completed 5 simple steps to a better plan ready to implement your new plan. The tables below list the plan details and contributions.

In the future, you should return to mPower Personal Advisor every 6 months to ensure you are still on track to meet your retirement goals. By coming back regularly, you can be reaching your retirement goals in a way that is consistent with your needs.

Active Account (Active Account)

Ticker	Security Name	Current	Target	Current Value	Target Value
POVSX	Foreign	0%	4%	\$0.00	\$210.82
MMUFX	MFS Utilities	100%	0%	\$5,000.00	\$0.00
PMEAX	Putnam Emerging Markets	0%	3%	\$0.00	\$155.16
OTCFX	Small Company Equity	0%	3%	\$0.00	\$155.16
VPSKX	VP 500 Stock Index Class II	0%	21%	\$0.00	\$1,072.40
VPGIX	VP Growth & Income	0%	2%	\$0.00	\$100.00
VPTSX	VP US Government Securities Fund	0%	4%	\$0.00	\$210.82

Total market value: \$5,000.00

[Click here to view this account in pie format.](#) **Show as Pie Chart**

[Click here to revert this account's investments to its current allocation.](#) **Revert to Current**

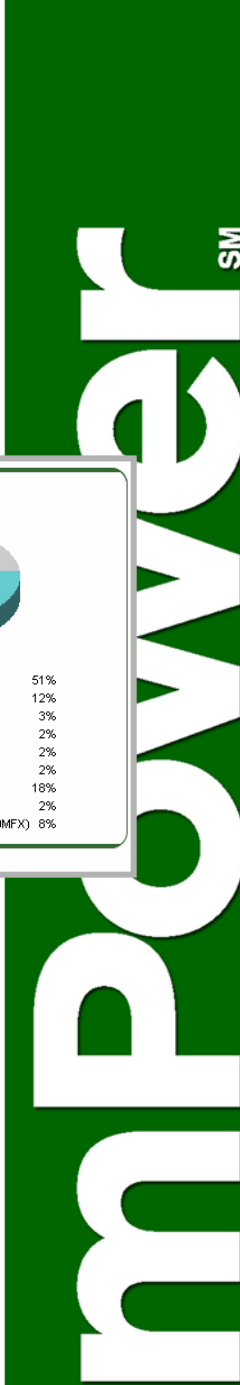
[Click here to transmit the above changes to your employer's retirement plan recordkeeper. By clicking here you will be changing both your current retirement plan investments and your future retirement plan investment elections.](#) **Send Changes**

Current Allocation

- Schwab Value Advantage (ID0156) 22%
- Schwab S&P 500 (SWPEX) 14%
- Montgomery Mid-Cap Fund (MNMXX) 30%
- Vanguard Sm Cap Index (NAESX) 11%
- Pimco Low Duration II (PLDIX) 23%

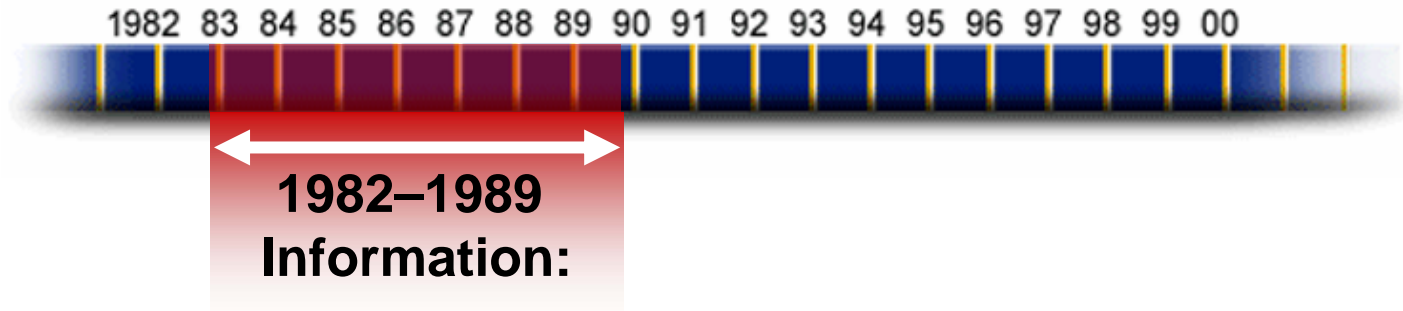
Target Allocation

- Schwab S&P 500 (SWPEX) 51%
- Vanguard Sm Cap Index (NAESX) 12%
- Pimco Low Duration II (PLDIX) 3%
- Royce Premier (RYPRX) 2%
- Harbor Cap Appreciation (HACAX) 2%
- Msdw Intl Value Eq A (MSIVX) 2%
- Dreyfus Intl Stock Index (DIISX) 18%
- T Rowe Emer Mkts Stock (PRMSX) 2%
- Vanguard Total Bond Market Index (VBMFX) 8%



Evolution of Advice

The Evolution of 401(k) Participant Advice



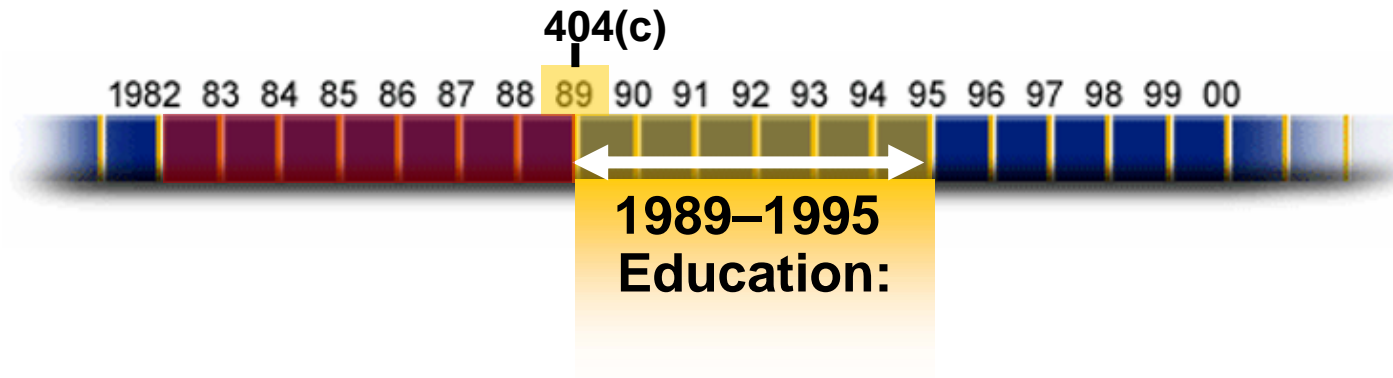
- *Fund data*
- *Plan document*
- *Performance data*

- *Accounts statement*
- *Prospectus*



Evolution of Advice

The Evolution of 401(k) Participant Advice



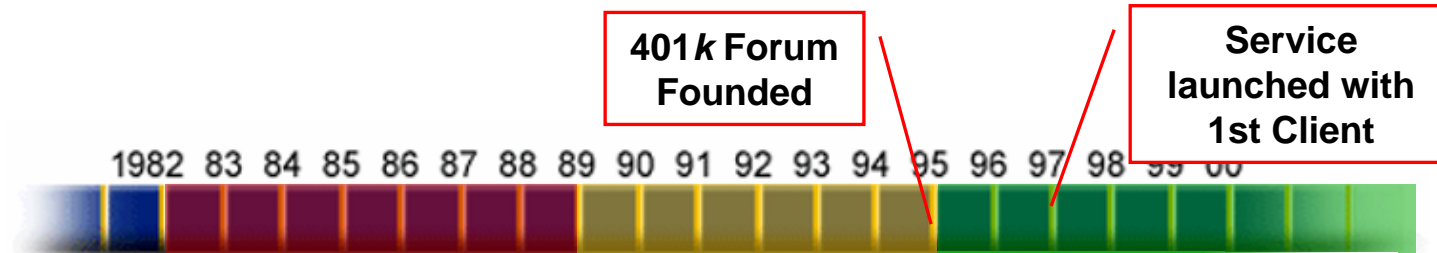
- *Workbooks*
- *Calculators*
- *Videos*
- *Seminars*

- *Counseling*
- *Financial planning*
- *Software*
- *Generic presentations*



Evolution of Advice

The Evolution of 401(k) Participant Advice



Generic

- **Lifestyle funds**
- **Asset allocation funds**
- **Funds of funds**

Specific

- **By fund**
- **By plan**
- **By individual**
- **By Delivery Method**

1995– Advice:

*Personalized for each participant;
customized for each financial situation*

Need For Advice

- 83% of participants have never rebalanced their retirement plan accounts
- 54% have no idea how much money to save for retirement
- 44% don't think they can save an extra \$20 per week
- 31% allocate their retirement plan accounts by either random guessing or dividing their assets equally among the investment options available

- source: EBRI





How Much Is Enough?

Saving for Retirement

Who wants to be a DC Millionaire?

– \$1 million provides ~ \$50,000/year pre-tax

Tax deferral limits not sufficient for many

Understanding tax-deferred benefits is a challenge

Will Social Security be there for me?





Accumulating Enough to Retire?

Joseph Johnson: Chicago, IL

- Joe is 25 years old making \$35,000
- Contribute 10% with 6% salary increases for 35 years
- Earning 8% on assets, 5% after retirement

Nest egg: \$441,518 (< \$20,000 for 30 years pre-tax)*

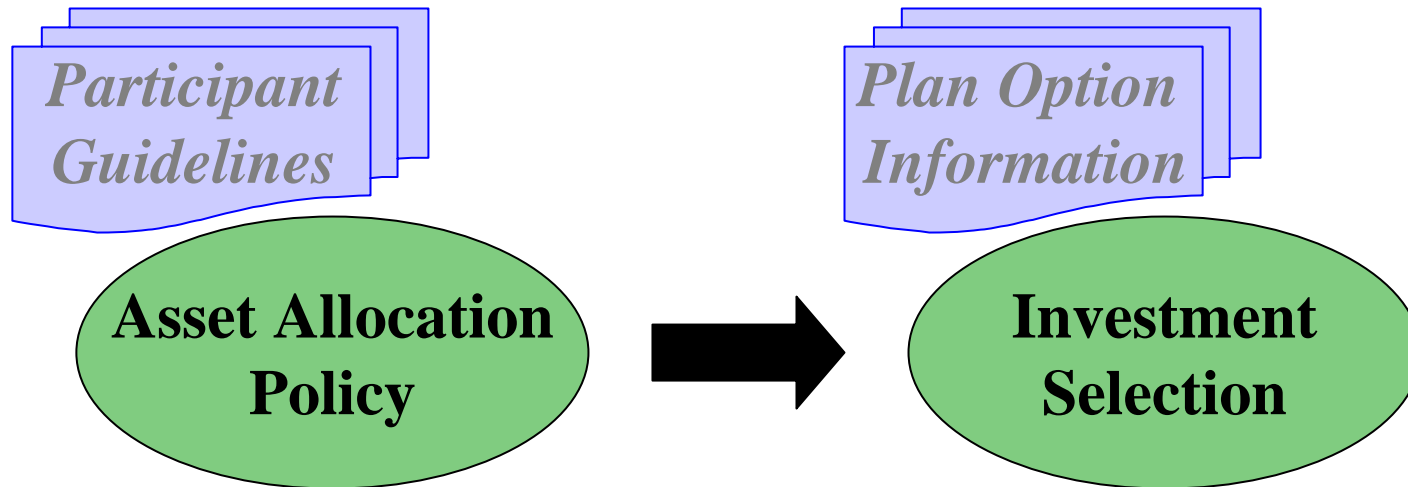
Note: Result in current dollars, adjusted for inflation of 3% before tax.

*Average “Joe” making \$250K at retirement
won’t accumulate enough in DC plan to retire*



Two Independent Decisions Drive Return

- Asset Allocation – 90% of wealth accumulation variation
- Investment Selection





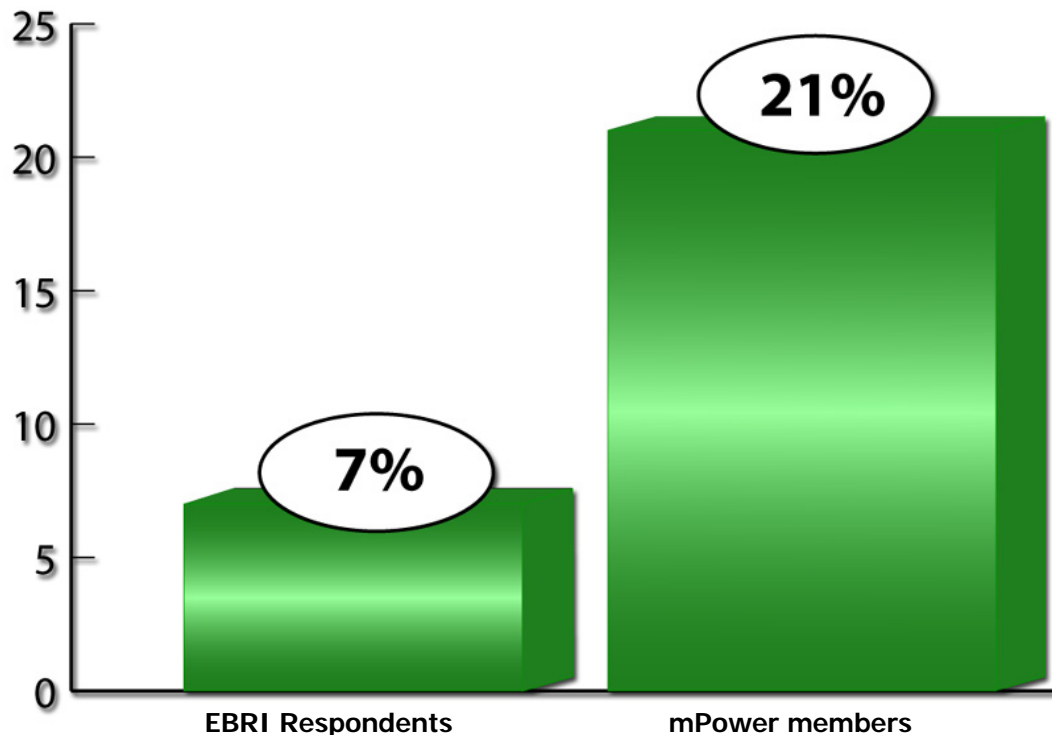
Still Too Much Company Stock

- Employees averaging 28.1% in DC plans
 - 86 companies reported more than 40% exposure
 - 12 report 75-95% of plan assets
- Employees adversely affected by 30% drop in value
- Savings can be enhanced or severely crippled
- Shareholder and employee objectives may conflict

Source: IOMA Survey, April 2002



Advice Effectiveness (1)

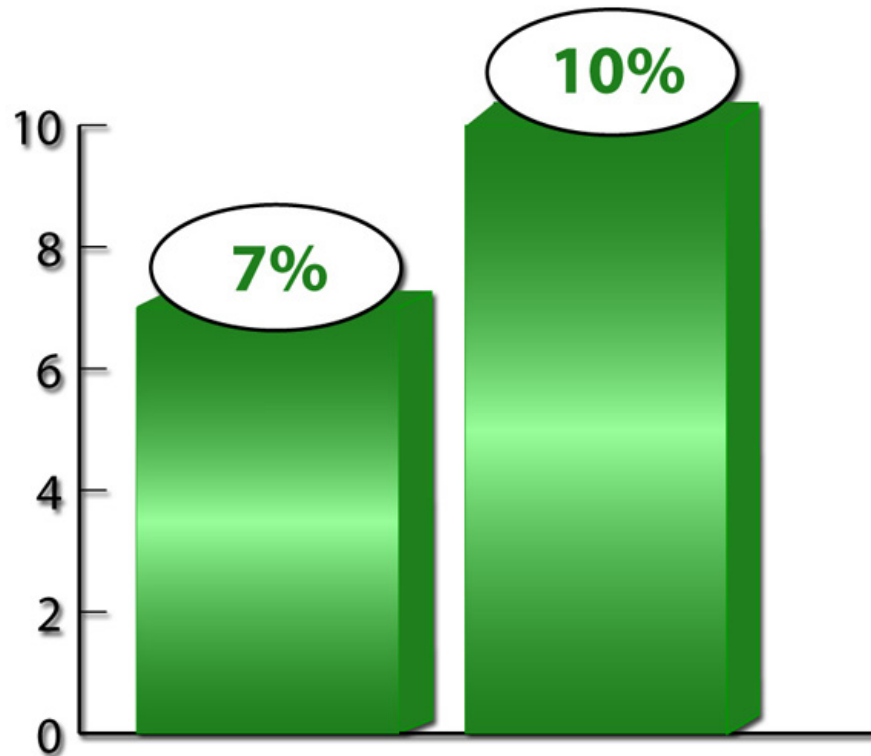


More than twice as many mPower members have increased contributions to their defined contribution plan, when compared to EBRI respondents*.

SOURCE: mPower Effectiveness Research (July 2001),
Modalis Research Technologies, Inc.

* EBRI (2000) *Retirement Confidence Survey*

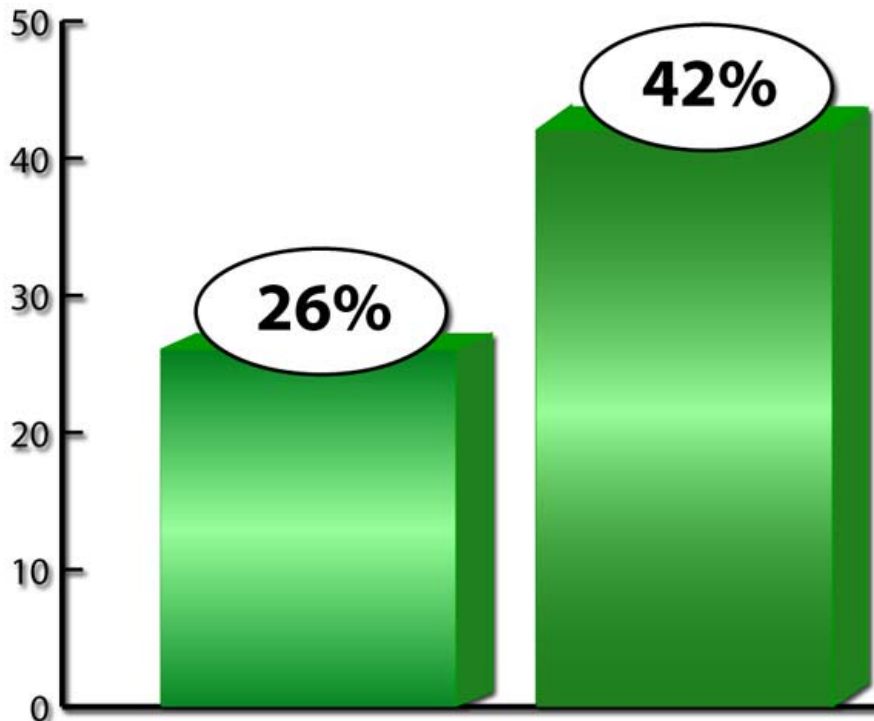
Advice Effectiveness (2)



mPower users contribute almost **10%** to their defined contribution plan post advice launch, compared to 7% on average prior to the launch of advice.

SOURCE: mPower Effectiveness Research (July 2001),
Modalis Research Technologies, Inc.

Advice Effectiveness (3)



42% of employees have made allocation changes after using mPower. EBRI* reports that only 26% have made changes after doing a needs calculation.

SOURCE: mPower Effectiveness Research (July 2001), Modalis Research Technologies, Inc.

* EBRI (2000) *Retirement Confidence Survey*

● ● ● The Future?

- Legislative change?
- The “Whopper” effect
- Advice and “holistic” financial planning
- Provider vs. sponsor pay



Conclusions

- Self directed investing here to stay
- But employees will find it hard to meet investment goals without help
- Help will have to be paid for by the employer/by the plan
- Advice providers must be flexible in arranging how to meet the advice need



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