



# An Institutional IRA

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**New York Life Insurance Company**

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*The Company You Keep<sup>®</sup>*



# Components of an Institutional IRA (IIRA)

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What are the critical components of an Institutional quality IRA?

1. Objective, renewable individual retirement income planning incorporating major risks in retirement.
2. Professionally selected and pooled investment vehicles, stand alone or packaged (i.e. Target-Date Funds) which are age and risk appropriate.
3. Fiduciary friendly income (immediate) annuities able to operate in a funds based world.
4. Transparent and optional wrap fee to pay for advice and delivery.



# Inspiration for IIRA

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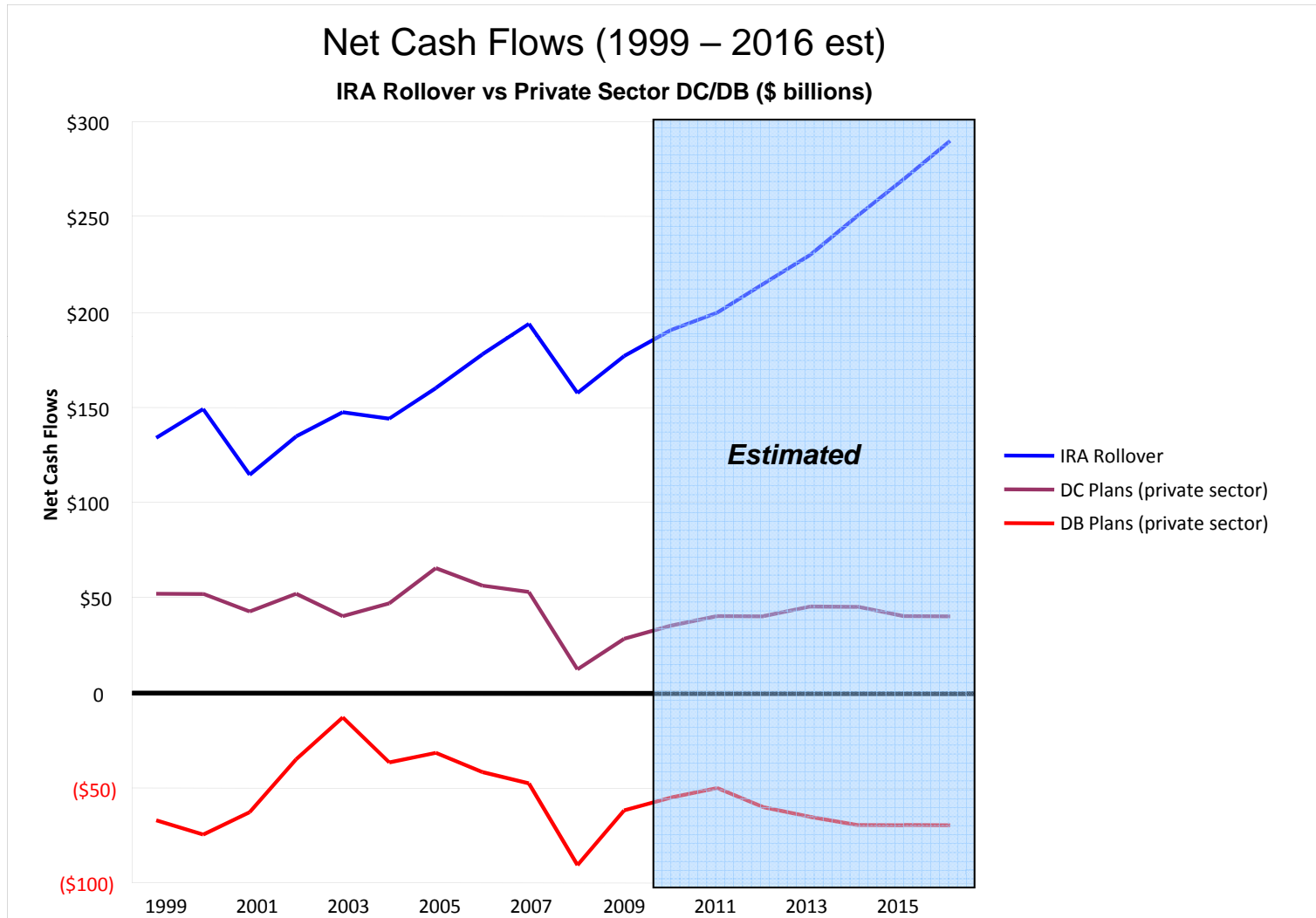
*A plan sponsor "was struggling with a decision that it saw as financially necessary but morally difficult, which was to freeze its 62 year old traditional DB plan and replace it with a cash balance plan"... "the plan sponsor knew that what it took away with the DB plan was the steady stream of income over the lifetime of its employees and what it needed to replace it with was some kind of road map that would help its former workers make it through retirement"... In the RMA (a retail IRA which combined funds, an immediate annuity and planning) they saw the seeds of what companies will ultimately need to offer their workers. "The idea of bundling together in one package the financial consulting, along with (income) annuities and the modeling to figure out how much you can take out of the account is something that could be appealing".*

*In a meeting, the sponsor asked if they could buy this retail IRA  
"institutionally..."*

*Source: Treasury and Risk, April 2007. "Bridging the Gap"*



# IRAs Dominate Flows



Source: Retirement Research Inc., May 2010.



# Why a New Category?

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- Reframe the retirement income debate based on what consumers are doing....Net flows into IRAs will approach \$300 billion per year by 2016\*
- It is in the public interest to broaden the category and provide services to the category
  - See The Wall Street Journal April 17-18, 2010, "The Grudge Match Over Your 401(k)...employers and financial firms vie for control of your savings"
- It is more effective to offer guaranteed income annuities based on individual need
  - The ICI has documented that Social Security (which is like an income annuity) is a large source of guaranteed income for many retirees
  - Apply the capacity of insurers precisely
- Advice and advisors are key. The ICI has reported that “Financial Advisors play an important role advising retirees on DC Plan distributions.”\*\*

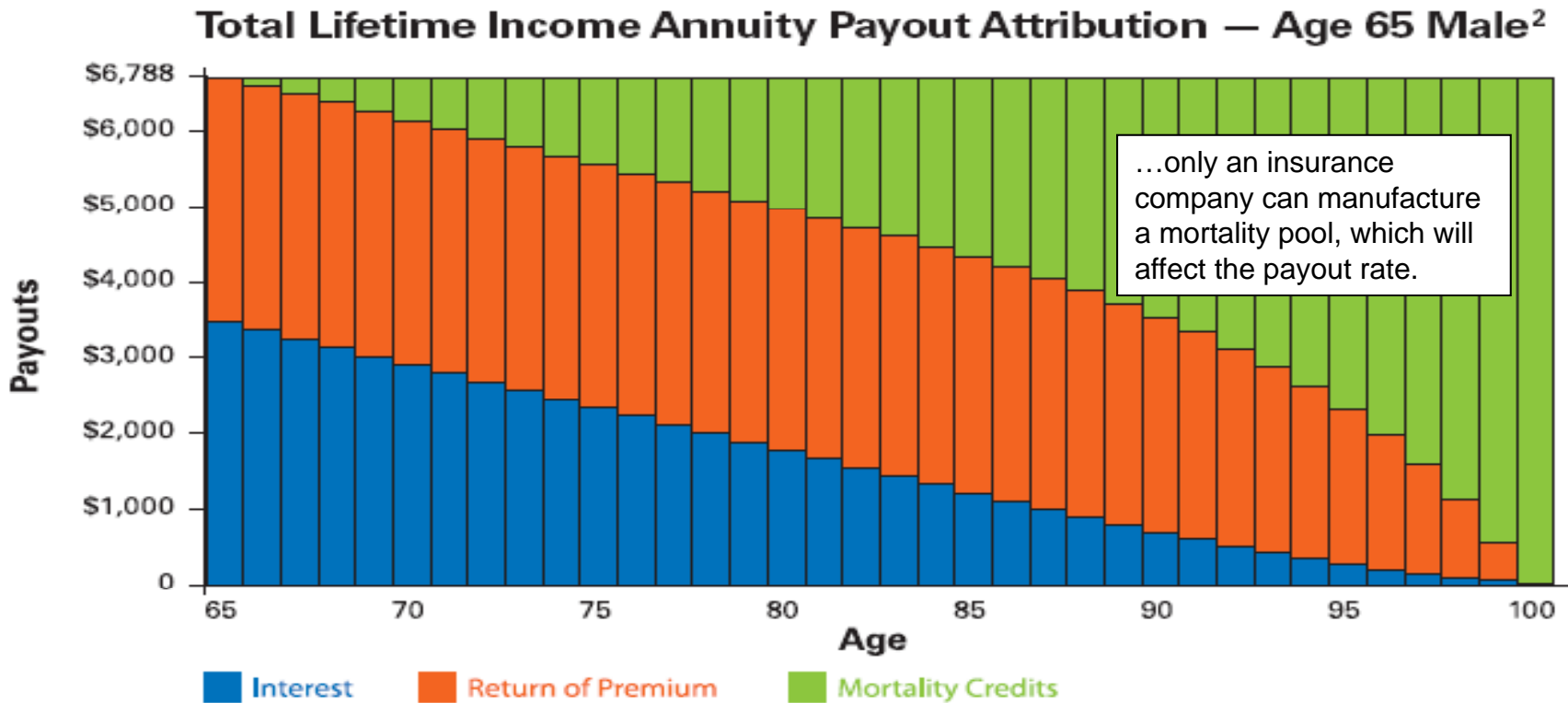
*\*Source: Retirement Research Inc., May 2010.*

*\*\*ICI Defined Contribution Plan Distribution Decisions Survey, 2007*



# Income Annuities Generate a Unique Form of Alpha

***Income annuities deliver higher payouts because, in addition to distributing gains and principal, they subsidize those who die late with the capital of those who die early. Income annuities hedge individual longevity risk.***



Source: New York Life, 2009. Rates as of 12/1/09. 2. Based on a Lifetime Income Annuity (LIA), Life with Cash Refund Option, issued by New York Life Insurance and Annuity Corporation (A Delaware Corporation) with a \$100,000 investment. Rates as of 12/1/09. Source: New York Life Actuarial Analysis. For most jurisdictions the policy form number for a Lifetime Income Annuity, Life with Cash Refund option is 203-172. State variations may apply



# Next Steps

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- Identify the interested Community
  - Investment and insurance companies, plan sponsors, consultants, advisors, etc.
- Build a model IIRA
- Identify Major Obstacles
- Determine if obstacles can be overcome

New York Life's point of view...go to where the market is going, think beyond our own interests, and contribute our best to help solve a critical need.

# Appendix

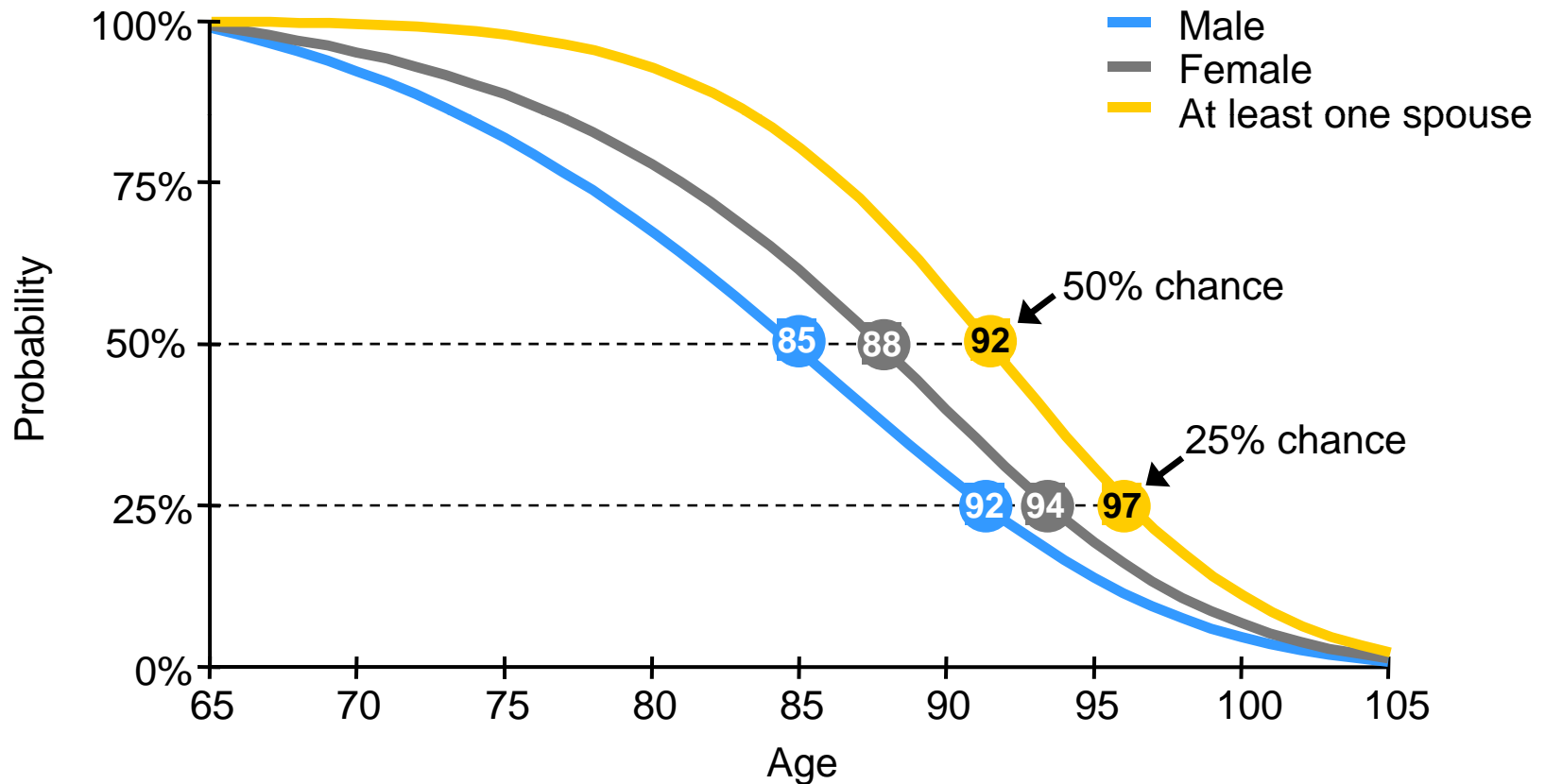




# Longevity Risk

***A significant risk that retirees face is longevity risk – the risk of outliving their assets. This risk is not hedged by traditional investment strategies.***

**Probability of a Healthy 65-year-old Living to Various Ages**



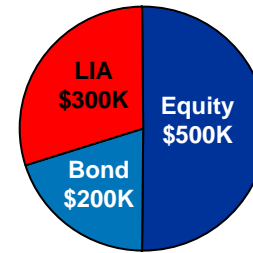
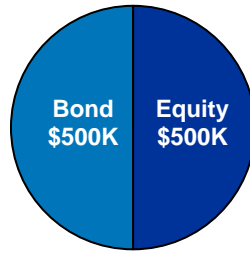
Source: Annuity 2000 Mortality Tables.



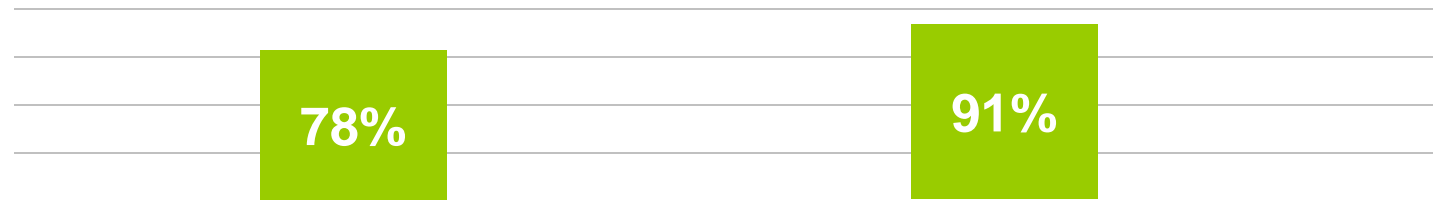
# Income Annuities Increase the Robustness of Retirement Portfolios

*Incorporating Lifetime Income Annuities (LIAs) into portfolios takes the pressure off withdrawals, leading to greater certainty that retirees won't outlast their portfolios, and potentially higher legacies!*

## Model Portfolio



## Probability assets >\$0 after 30 yrs



## Median ending asset value (\$000s)



**Scenario: Male age 65, qualified account, 4% withdrawal rate, adjusted annually for 3% inflation**

Source: New York Life Insurance and Annuity Corporation, 2010. Hypothetical value of assets held in an untaxed account of \$1,000,000. The illustration is based on a Monte Carlo model of 1000 scenarios. Equity and bond returns were generated using an economic scenario generator, with correlations estimated using historical monthly S&P 500 Index and Barclay's Capital U.S. Aggregate Bond Index returns over the past 20 years. The BC U.S. Aggregate Bond Index is an unmanaged market value-weighted performance benchmark for investment grade or better fixed-rate debt issues, including government, corporate, asset-backed, and mortgage-backed securities, with maturities of at least one year. The S&P 500 Index is an unmanaged index and is widely regarded as the standard for measuring large-cap U.S. stock-market performance. An investment cannot be made directly into an index. Each withdrawal rate is adjusted annually for 3% inflation. The portfolio is rebalanced annually and assumes an annual deduction of 150 basis points for management fees. For the LIA, the management fees are charged against the remaining Refund Value. Hypothetical LIA policy issued for a male age 65 years old with cash refund and 3% COLA option on a \$300,000 premium. Annual income amounts are based on rates in effect as of 3/1/2010. This example is for illustrative purposes only and does not represent the performance of an actual investment.



# New York Life Delivers Model Portfolios with Income Annuities

*New York Life has collaborated with Ibbotson to develop a method for recommending model portfolios containing Income Annuities across multiple managed accounts platforms.*

Ibbotson Client Profile Questionnaire

Risk Tolerance

Gender/  
Marital Status

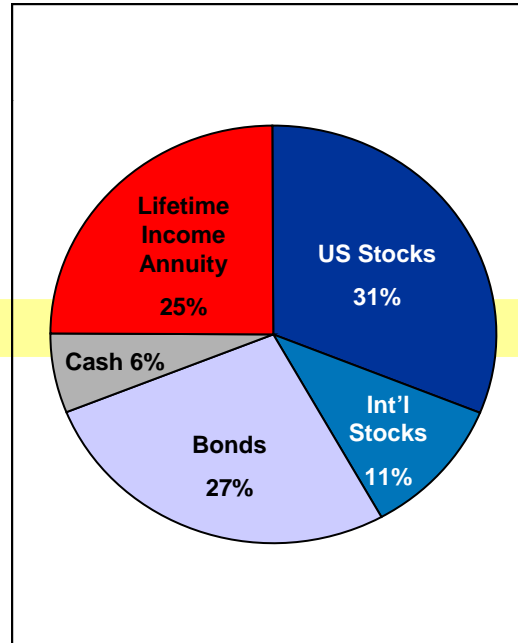
Age Group

Subjective Life Expectancy

Annuitization Motive

Model Portfolio Engine

Ibbotson Model Portfolio



Manager\ Vehicle Selection

Platforms

Mutual Fund Wrap

SMA

UMA

Rep as Portfolio Manager