Retirement Income
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The Bucket

By Editorial Staff *Wed, Dec 7, 2011*

Brief or late-breaking items from MetLife, Vanguard, Boston Research Group, Securian, Nationwide, The Hartford and the MIT AgeLab.

Vanguard participants earn an average of 3.76% a year over five years

For the three million or so plan participants in defined contribution plans whose records were kept by Vanguard, the average annual total return over the five-year period ending on December 31, 2010 was 3.76%, net of all investment expenses fees and independent of each participant's unique contribution or withdrawal pattern.

The average cumulative return for that period, which included the 2008-2009 crash in equity market prices and corporate bond prices, was 20.27%. From the end of 2007 to the end of 2010, the average Vanguard participant broke even, with virtually no total return gain or loss.

The results were reported in a November 2011 research brief, "Participants during the financial crisis: Total Returns, 2005-2010," written by Stephen P. Utkus and Shantanu Bapat of the Vanguard Center for Retirement Research.

There was some dispersion around the averages. The youngest participants (<25) had the highest five-year annualized returns (4.18%) of any age group; those with the highest account balances (>$250,000) had the highest returns of any account size group by a small margin (3.97%). Those with household incomes between $30,000 and $50,000 had the highest returns of the income segments (3.84%) and men gain slightly more than women (3.84% versus 3.60%).

But those with the highest average annualized five-year returns (4.65%) were the over-65-year-olds who had all their money in a single target date fund. They also had the lowest average equity exposure, at 40%.

Not surprisingly, participants who used single target date funds (3.90%) and people who used Vanguard's managed account service (3.66%) experienced tightly clustered returns—there was little variation in a random sample of 1,000 participants.

For the self-directed participants in the sample, the performance was scattershot, with annual five-year returns ranging from highs of almost 15% for a handful of people to lows as deep as minus 7.5% for a few. Some of the deviation was attributed to holdings of company stock.

"Some participants' more extreme portfolio construction strategies resulted in exceptionally positive results over the period and some resulted in very poor results," the authors commented.

"For many others, investment results were scattered, seemingly unpredictably, across the risk-return space. For plan fiduciaries, an important question to weigh is whether such dispersion of outcomes reasonably reflects individual participants' desires for portfolio customization—or their lack of skill at portfolio construction."

MetLife issues earnings forecast for 2012

MetLife, Inc., company expects 2012 operating earnings to be between $5.1 billion and $5.6 billion ($4.80 to $5.20 per share), up 7% over 2011 adjusted results, the largest U.S. life insurer and leading variable annuity issuer said in a release this week. The adjustments reflect several one-time items in 2011 and the estimated impact of an industry-wide change in accounting methodology.

MetLife's stock price peaked at about $63 in October 2007, fell below $14 in early 2009 and closed at about $32 this week. Its one-year return is a loss of more than 18%, according to Bloomberg.

Shares of other publicly held insurers, such as Lincoln National Corp., Hartford Financial Services Group, and Genworth Financial Inc., have suffered as much or more.

A recent report in Bloomberg said:

> The current low interest rates have hurt investment income at companies including MetLife, the largest U.S. life insurer. Treasuries have fluctuated over the past three months as European leaders tried to convince investors that nations in the region will be able to pay their debts. The U.S. 10-year yield rose to 2.42% on Oct. 28, after reaching a record low 1.67% on Sept. 23.
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> The average yield on MetLife's more than $350 billion in fixed-income holdings sank to 4.8% in the three months ended Sept. 30 from 5.8 percent a year earlier, according to data on the insurer's website. In addition to its bond portfolio, the life insurer is using funds to finance hard assets such as locomotives, power plants and real estate.

In addition to operating earnings growth in 2012, MetLife projects it will increase premiums, fees & other revenues by 5% over 2011 to between $47.3 billion and $48.6 billion, the company said in a release.

MetLife estimates its full year 2011 operating earnings will grow 32% to between $5.2 billion and $5.3 billion ($4.83 to $4.93 per share) compared with $3.9 billion ($4.43 per share) in 2010.

For 2011, MetLife expects to grow its premiums, fees and other revenues 32%, to be between $46.3 billion and $46.8 billion, compared with $35.2 billion in 2010.

Book value per share at year-end 2011 is expected to be between $56.15 and $57.25, up 28% from $44.18 at year-end 2010.

MetLife expects fourth quarter 2011 operating earnings of between $1.2 billion and $1.3 billion ($1.16 to $1.26 per share), up 7% from $1.2 billion ($1.19 per share) in the fourth quarter of 2010.

Per share calculations for full year and fourth quarter 2011 are based on 1,068.2 million and 1,066.5 million shares outstanding, respectively. Per share calculations for 2012 are based on 1,070.3 million average shares outstanding.

Plan sponsors give Vanguard top marks: Boston Research Group

Retirement plan sponsors ranked Vanguard tops in 2011 for overall satisfaction, value for cost, and investment performance, according to Boston Research Group's 2011 Plan Sponsor Satisfaction and Loyalty Study. This marked the third consecutive year that Vanguard has achieved the #1 ranking for overall satisfaction; it has been in the top five in that category since 1999.

Boston Research Group (BRG) is a strategic market research and consulting firm that serves a number of industries, including the financial services industry. BRG conducts an independent annual survey of how plan sponsors perceive full-service retirement plan providers, which provide investment management and administrative services such as plan recordkeeping; accounting, legal, compliance, and trustee services; participant education; websites; customer service phone centers; and loan administration.

This year's findings resulted from BRG's nationwide survey between April and July 2011 of 1,454 401(k) plan sponsors with $5 million or more in plan assets. BRG establishes quotas for plan sponsor responses for each recordkeeper to achieve statistically reliable samples. Vanguard has been among the top-tier providers, as ranked by client satisfaction and cost, in every BRG survey since 1999.

The BRG findings follow a Cogent Research "Retirement Planscape 2011" survey this summer that rated Vanguard among the best in several categories, including brand impression, loyalty, and plan sponsor support. Conducted in March and April 2011, the survey cited Vanguard as the top defined contribution (DC) investment manager for favorable brand impression among those familiar with the brand.

In assessing attributes that help drive perception of a DC investment manager's brand, plan sponsors placed Vanguard first in the categories of "competitive fees/fee structure" and "good value for the money." In addition, Vanguard was second for "noteworthy organizational stability" and "industry-leading product innovation." The survey studied the impact of brand and loyalty among a representative cross section of 1,994 401(k) plan sponsors.

Pre-retirees and retirees happy, optimistic

Americans' trademark optimism is intact, at least in regard to retirement, despite the economic turbulence that is reportedly forcing many people to work longer and make do with less. In fact, many retirees found only one downside: They wish they could have done it sooner. That's according to a new survey from The Hartford and MIT AgeLab.

The October 2011 *Age of Opportunity* study, which measured the opinions and concerns of Americans both in and approaching retirement, found that most retirees are pleased with their life, and both pre-retirees and retirees have a positive attitude about retirement overall:

- Retirees are more likely to say “I am happier now that I am retired” (77%) than those who have yet to retire are to say “I will be happier after I retire” (64%).
- Other than wishing they could retire earlier (35% of pre-retirees), or could have retired earlier (42% of retirees), many recent and soon-to-be retirees see few negatives about retiring.
- Twenty-six percent of those nearing retirement said they feel “hopeful” about retirement, while 27% of those who have recently retired say they feel “peaceful.”
- Among those who did find something less than positive about the next phase of their lives, dealing with medical or health issues was cited most often (2% for both pre-retirees and retirees).
- Among retirees, the more affluent are twice as likely as others to cite giving up a fulfilling career as a negative to retirement.

The study, conducted by GfK Roper for The Hartford and the MIT AgeLab, surveyed people who are within 10 years of retiring versus those who have retired within the last 10 years, and attempted to answer the question, “Does the reality of retirement match expectations?”

Most pre-retirees and retirees cite health or medical issues as the thing they worry most about impacting their retirement. Health is definitely top of mind. Other health-related findings include:

- If they could change one aspect of retirement, retirees say they would have saved more money or been better prepared financially (32%), but they also wish they’d paid more attention to the importance of health issues (13%).
- When asked how long they would like to live, most said “as long as I am healthy” (80% of pre-retirees, 75% of retirees). In contrast, just 3% of pre-retirees and 4% of retirees said they would prefer to live as long as their money lasts.
- Retirement-age Americans see themselves living a very long time. Many expect to make it into their 90s (29% of pre-retirees, 35% of retirees).
- Although many retirees (48%) and most pre-retirees (63%) say their spouse is the person most likely to care for them if they become chronically ill, few (11% of pre-retirees and 10% of retirees) say their top concern is caring for a spouse or family member impacting their retirement.

When it comes to planning, both pre-retirees and retirees said a milestone birthday (19% of pre-retirees, 14% of retirees) or the realization that they are within 10 years of retiring (15% of pre-retirees, 11% of retirees) were the two most common triggers for serious financial planning.

It also seems that early planning plays off: More affluent retirees – those with $250,000 or more of investable assets – are twice as likely to say they began serious financial planning when they got their first job.

Both retirees and pre-retirees say they would give up some “extras” to help make ends meet in retirement, including moving to a more modest home (14% of retirees and 21% of pre-retirees), driving a less-expensive car (15% and 18%, respectively), or shopping less (17% for both). They were less willing to give up dining out, entertainment and recreational pursuits. Those who are more affluent are even more likely to “trade down” a home or car to preserve other aspects of their lifestyle.

Americans’ independent-mindedness also showed through as the survey found that retirees say they followed their own path, and pre-retirees hope to do the same. When asked what song they’d use to describe the retirement they have, or the one they hope to have, both groups most often chose (I Did It) “My Way.”

From Oct. 3-16, 2011, GfK Roper conducted a total of 1,964 telephone interviews with adults 45 years and older using RDD (random digit dialing). To qualify, respondents must have retired in the past 2-10 years (“retiree”) or plan to retire in the next 2-10 years (“pre-retiree”). These groups were further divided based on their household’s total investable assets, with quotas for under $250,000 and $250,000 or higher.

Securian finds opportunities for advisors among small business owners

Securian Research has created a research paper to help financial advisors understand and cultivate small business owners as potential clients.

“For many financial advisors small business owners (SBOs) are highly desirable when building an advisory business because of the many financial services they need and use. But SBOs are legendarily difficult to get in front of because they are so busy and not particularly interested in hearing about a service they’re not convinced they need,” Securian said in a release.

The paper, *Small but mighty: Growing opportunities for financial advisors and small business owners,* summarizes Securian’s analysis of the financial concerns of small business owners.

The online, statistically valid survey of 435 SBOs across the US shows their top financial concerns include cost control, profitability, building wealth, financial security for their families and rising health care costs.

Ironically, the percentages of SBOs who want outside assistance with these concerns is much larger than the percentage who actually seek and use it.

There are circumstances under which SBOs consider seeking a financial advisor’s services. All fall in the typical advisor’s “sweet spot,” including business succession planning, personal finance, asset management and employee benefits.

How does an advisor get on a small business owner’s radar? Recommendations from family members, business acquaintances, and other financial professionals provide the best entrée to an SBO. Clearly, networking with bankers, accountants and attorneys is important.

Securian will use the research to develop a “Small But Mighty” campaign that gives advisors a step-by-step approach to building their small business clientele.

Small business owners surveyed met these requirements:

- Private company ownership, sole or shared
- At least 50 percent responsibility company financial decisions
- At least 50 percent responsibility for household financial decisions
- For-profit company not in marketing, market research or financial planning
- Three to 250 employees
- Minimum of one year as owner.

Nationwide Financial aids in planning for retirement health care expenses

Health care is consistently among the main concerns of retirees and pre-retirees as they consider their post-employment finances. This, along with ongoing uncertainty over the future of Medicare, means that paying for heath care should now be taken into even greater consideration when planning for retirement.

To better assist advisors in helping clients plan for health care-related retirement expenses, Nationwide Financial today launched the Personal Health Care Assessment to help advisors estimate their clients' health care expenses in retirement.

Today, Medicare provides health coverage to 46 million older or disabled Americans, but there are several common misconceptions about what is covered. In fact, Medicare currently covers only about 51% of the expenses associated with health care services.

Developed by leading physicians and experienced actuaries, The Personal Health Care Assessment program uses proprietary health risk analysis and up-to-date actuarial cost data such as personal health and lifestyle information, health care costs, actuarial data and medical coverage. The data is analyzed by these experts to identify a meaningful, personalized cost estimate that will help clients plan for future medical expenses.

The assessment starts with a questionnaire on the client's health history, lifestyle and family history of medical conditions. After this, they will receive a report that offers suggestions for decreasing health risks. The report will tell clients about their health profile, health risks, estimated life expectancy based on those risks, and hypothetical out-of-pocket health care costs during their retirement.

The program also utilizes tools that allow for "what-if" scenarios. For example, how will a change in their year of retirement affect a client's out-of-pocket heath care costs?