Financial Engines® Income+ Early Results

July 2012

financial engines®

retirement help for life®

Table of Contents

Introduction

About Financial Engines® Income+

In January 2011, Financial Engines introduced Income+, an innovative retirement income solution which is an enhancement of Professional Management, our managed account service. Income+ helps turn an employee's 401(k) into steady payouts that can last for life.[1] The solution resulted from years of interviews with hundreds of near-retirees and retirees. Our primary goal was to better understand the emotions and behaviors surrounding retirement, and to identify how best to get these participants the help they need.[2] Through that process, we learned that near-retirees want:

- Control and access to their money
- Secure income in retirement
- Personalized help from an advisor they trust

We specifically designed Income+ to meet these employee needs but also the unique needs of plan sponsors. Income+ meets plan sponsor needs for:

- No plan lineup changes—money stays in existing options
- No fiduciary lock-in—no need for in-plan annuity, no default risk for plan
- No regulatory uncertainty—as a managed account offers QDIA safe harbor
- No additional fees—for sponsors or participants using Professional Management

Income+ combines Financial Engines' proven methodology, money management expertise, and a skilled advisor representative team to deliver a personalized solution.[3]

[1] Requires purchase of out-of-plan annuity.

[2] See study titled, "*Understanding the Accidental Investor: Baby Boomers on Retirement*", published by Financial Engines, 2011. Study available at www.financialengines.com.

[3] Please see page 16 for more information about Income+.

Income+ Results to Date

By year-end 2011, Income+ was available at eight plans with combined plan assets of $19 billion, reaching nearly 300,000 participants including 33,000 eligible participants age 60 and older. Of those eight plans, five had completed participant communication and enrollment campaigns at the time of this report.[4] We have limited this report's focus to those five plans, including the impact on Professional Management enrollment for eligible participants age 60 and over where Income+ was available.

The five plans represent a diverse group of companies across a variety of industries, including financial services, health care, and technology.

- Plan size ranged from $66 million to nearly $8 billion in plan assets
- The number of participants per company ranged from 1,300 to nearly 150,000
- Among participants age 60 and older, the percentage of pre-retirees (working participants)[5] per company varied from a low of 21.7% to a high of 96.8%

The plans in this report also represent diverse approaches to participant enrollment. Two plans re-enrolled (defaulted) participants age 60 and older into Financial Engines' Professional Management with Income+.[6] The remaining three plans used an "opt-in" enrollment approach where participants make an active election to enroll into Professional Management with Income+. Please see the section titled "About this Report" for additional information regarding the report's coverage and methodology.

The goal of this report is to summarize the overall usage of Professional Management with Income+ among participants age 60 and over in the first plans to deploy Income+ campaigns. We also sought to better understand some of the contributing factors behind eligible participant usage of Professional Management with Income+. And finally, we sought to measure the impact Professional Management with Income+ has had on the risk levels of participant portfolios.

[4] Two plans did a "soft launch" of Income+ with participant communications deferred until a later date; the other plan had fewer than two participant touches in its Income+ communications, less than the recommended baseline.

[5] In this report, "pre-retirees" refers to participants age 60 and older that are eligible to contribute to a defined contribution plan, drawing a salary, and with money in a 401(k) account. "Retirees" refers to those participants that have retired or terminated their employment and who still have money in their 401(k) account.

[6] Eligible participants already using Professional Management were informed of the Income+ enhancement.

Our key findings include:

- **Participants respond positively with increased enrollment uptake when offered Income+.** The first section of this report looks at Professional Management enrollment results for participants age 60 and over where Income+ was fully deployed. We also look at results by type of enrollment and how enrollment rates compare between pre-retirees and retirees.

- **Default enrollment and help from an investment advisor were key enrollment factors.** In the second section, we look deeper into the default enrollment results, comparing the profiles of participants that stayed in Professional Management with Income+ to those that opted-out. We also look at the enrollment impact of one-on-one help from an investment advisor representative.

- **Participants using Professional Management with Income+ realized significant reduction in portfolio risk.**
  In the final section of this report, we analyze risk levels for eligible participants before and after they enrolled in Professional Management with Income+.

While adoption of Financial Engines' Income+ retirement income solution is in the early stages, a number of interesting trends are emerging. We'll gain a more complete picture in the months and years ahead as more sponsors add this feature.

Section One: Enrollment Results

When offered Professional Management with Income+, eligible participants—those age 60 and older—showed a strong uptake. Among the five companies that completed Income+ participant communication and enrollment campaigns, the average enrollment rate for participants ages 60 and older was 16.2%.[7]

Four of the five plans in this report already offered Financial Engines' Professional Management when Income+ was made available. Professional Management enrollment by participants age 60 and older in these four plans prior to the introduction of Income+ averaged 8.7%.

Figure 1: Enrollment Rates

Plan	% Enrollment
Plan A	20.7
Plan B	8.0
Plan C	24.4
Plan D	38.6
Plan E	47.4
Average	16.2

This compares to the average managed accounts enrollment rate of 9.7% for the same age group across all plans that offer Financial Engines Professional Management but have not yet made Income+ available.[8]

The 16.2% average enrollment rate compares favorably to 6.2% appropriate target-date fund usage rate among the same age group across all plans that offer Financial Engines' Professional Management.[9]

The next sections will take a deeper look at enrollment results. We'll start with the results for opt-in enrollment, followed by the results for plans using default enrollment.

[7] In this report, "enrollment rate" refers to the percentage number of participants age 60 and over that enrolled in Professional Management, where Income+ was available. Enrollment rates for the five plans in this report were measured as of 2/9/2012. The results for the five plans are influenced by a greater proportion of default enrollment than is typical across the plans offering Professional Management but not yet making Income+ available.

[8] As of 3/31/2012.

[9] As of 3/31/2012. Appropriate target date fund usage includes percentage of participant portfolios where 95% or more of the portfolio is invested in a target date fund.

Opt-in enrollment: Significantly higher enrollment among pre-retirees than retirees

Opt-in enrollment averaged 10.4% across the three plans after completion of the Income+ campaign. Opt-in enrollment was higher among pre-retirees age 60 and older (17.5%) than among those that had retired or terminated their employment (6.0%).[10]

Figure 2: Opt-In Enrollment Rates, Pre-retirees and Retirees

Plan	% Enrollment Pre-retirees	% Enrollment Retirees
Plan A	23.3	13.4
Plan B	13.9	5.3
Plan C	29.9	15.1
Average	17.5	6.0

That's not surprising considering retired participants are likely already drawing on other sources of retirement income, such as Social Security, a defined benefit plan or an IRA. With an in-plan solution for retirement income now available, over time we may see enrollment increase among inactive participants as today's active employees become tomorrow's retirees.

Of the plans with opt-in enrollment, Plan B had the highest percentage of eligible retired participants (over 69%). Plan A had the lowest percentage of eligible retired participants (over 24%), while 40% of eligible participants in Plan C were retirees. Directionally, these data suggest that opt-in enrollment rates will tend to be lower in plans where retirees are a very high percentage of eligible participants.

[10] May also include enrollment by terminated participants 60 and older.

Opt-In Enrollment: Highest enrollment among pre-retirees ages 60-64

For opt-in enrollment plans, participants still working between the ages of 60 and 64 had the highest enrollment rates, ranging from 15.0% to 32.1%.

Figure 3: Opt-In Enrollment Rates by Age Cohort

Plan	% Enrollment by Pre-retirees Age 60-64	% Enrollment by Pre-retirees Age 65+
Plan A	25.2	19.6
Plan B	15.0	11.2
Plan C	32.1	25.0
Average	**18.7**	**14.7**

Default Enrollment: Enrollment results averaged 47%

Two of the five plans in this report used default enrollment, automatically enrolling all participants age 60 and older into Professional Management with Income+. While participants can opt-out at any time, this approach to enrollment produced dramatic results. The average default enrollment rate was over four times higher than the average opt-in enrollment rate for the three plans in this report (47.0% compared to 10.4%).

Figure 4: Default Enrollment Rates

Plan	% Enrollment
Plan D	38.6
Plan E	47.4
Average	**46.9**

Default Enrollment: Pre-retiree and retirees enrollment equally high

When participants were defaulted into Professional Management with Income+, enrollment rates among eligible working and retired participants were comparable.

Figure 5: Pre-retiree and Retiree Default Enrollment Rates

Plan	% Pre-retiree Enrollment	% Retiree Enrollment
Plan D	37.6	60.0
Plan E	46.4	47.7
Average	44.7	47.7

From the results of Plan E, default enrollment appears to be effective in reaching retired participants, a group that can be challenging to engage. As shown above, Plan D had consistent results, but based on a small number of retirees.

In the next section, we look at factors that drive Professional Management with Income+ usage.

Section Two: Factors Driving Income+ Usage

When implementing Professional Management with Income+, plan sponsors have a number of enrollment and communications options to consider. In general, the five plans in the study used many of the enrollment and communications options we consider to be “best practices”. Enrollment results may differ for plans which do not employ a comparable array of enrollment and communications options. In this section, we examine two of these options—the default enrollment option and the option to offer planning sessions with independent advisor representatives into communications about Income+.

Default enrollment considerations

Plan sponsors have the option to implement Income+ using opt-in or default enrollment. As shown in Section One of this report, default enrollment leads to higher participant usage of Professional Management with Income+. For plans in this study, when default was either the enrollment approach used, or when default enrollment was used to gain additional enrollment to add to existing Professional Management usage among participants age 60 and over, the average default enrollment rate was over four times the average opt-in enrollment rate (47.0% versus 10.4%).

There are several considerations when selecting default enrollment. In addition to pricing considerations, for some sponsors, defaulting eligible pre-retirees and retirees into Income+ is a logical extension of the automatic 401(k)—auto-enrollment of new hires, auto escalation, and plan re-enrollment into a Qualified Default Investment Alternative (QDIA) to help current participants. Other sponsors take a hybrid approach, limiting where they implement default enrollment. And others embrace a benefits philosophy that seeks to make available an array of benefits but leaves it up to the participant to “opt-in” or choose what is right for them.

Fiduciary concerns also come to mind for some sponsors considering default enrollment of eligible participants into Professional Management with Income+. Since Income+ is an extension of Financial Engines’ managed account service, plan sponsors can take advantage of ERISA investment manager protections and the QDIA safe harbor. Income+ payouts are designed to meet IRS Required Minimum Distribution rules, providing additional comfort to plan sponsors.

Communication considerations also factor into the default enrollment decision. To ensure “no surprises”, sponsors that use default enrollment when introducing Income+

typically work with Financial Engines to create a 6-week communications campaign that has clear deadlines, multiple participant "touches" starting with communications from the employer to create awareness, and personalized communications from Financial Engines including one-to-one income planning sessions with, or outbound calls from, an investment advisor representative.

Lastly, sponsors considering Income+ default enrollment have questions about what segment(s) of their participant population will likely benefit from default enrollment. Specifically, they want to better understand the profiles of participants that have been defaulted into and chose to remain in Income+. They also want to know how the profiles of defaulted participants that stay in Income+ compare to the profiles of participants that chose to opt out.

Participants that need help the most benefited from default enrollment

In Figure 6, we compare the participant profiles for those that "stayed in" with the profiles of those that opted out (bottom table) in the two plans that defaulted eligible participants into Income+. Participants that stayed in Professional Management (including using Income+) had significantly lower salaries, balances, and contribution rates compared to those that opted out. The average median balance for participants that stayed in was $98,060. Those that opted out had an average median balance of $145,995.

Figure 6: Salary, Balance and Contribution Rates for Default Plans

Defaulted Participants That Stayed

	Median Salary	Median Balance	Average Contribution
Plan D	$49,322	$15,753	5.7%
Plan E	$68,450	$103,572	11.4%
Plans D and E Combined	**$67,500**	**$98,060**	**10.4%**

Defaulted Participants That Opted Out

	Median Salary	Median Balance	Average Contribution
Plan D	$61,410	$48,495	10.9%
Plan E	$78,395	$159,371	15.1%
Plans D and E Combined	**$76,404**	**$145,995**	**13.8%**

One of the key benefits of offering participants an in-plan retirement income solution, such as Income+, is that all participants have access to independent investment help, regardless of the size of their account balance. Participants with smaller balances often have difficulty finding help in the retail environment since most retail financial advisors target higher balance participants and ignore the rest. Outside of the plan, account minimum requirements of $250,000 are not uncommon.

While we have not yet surveyed participants using Income+, one hypothesis these data suggest is that participants with higher balances and salaries may have other retirement income options outside the plan, while those with lower balances and salaries may be more dependent on retirement income solutions from their employer.

Investment advisor representative outreach and engagement boosts Income+ enrollment

Another option for plan sponsors implementing Income+ is outreach by an investment advisor representative. While access to non-commissioned, objective, investment advisor representatives is a benefit available to all participants using Financial Engines' managed account service, we take it a step further with Income+. With Income+, at the option of the plan sponsor, our investment advisor representatives will pro-actively call participants during a rollout campaign to schedule one-on-one retirement and income planning sessions and to answer questions about Income+.

Specifically designed for participants age 60 and over, these income planning sessions—Income Checkups—help participants structure a plan for turning their accumulated plan balance into steady lifetime income. Income Checkups include discussions related to participants' retirement confidence and income forecasts versus their retirement income goals, including ways to fill any gaps between the two. Income Checkups also include planning for such things as Social Security, anticipated major expenses in retirement, and other sources for generating retirement income.

Engaging with an investment advisor representative can have dramatic results. Retirement issues are very complex and being able to discuss retirement income options with an advisor can make a big difference. As shown in Figure 7, Plan E enrollment rates were more than double for participants contacted by an advisor compared to the enrollment rates of those that were not.

Figure 7: Enrollment Rate and Advisor Outreach in Default Plan[11]

Sponsor	With Advisor Outreach	Without Advisor Outreach
Plan E	64.3%	30.3%

[11] Advisors were able to contact 52% of the eligible participants in Plan E. The results shown are a percentage of the population that was contacted.

For plan sponsors that choose default enrollment, having investment advisor representatives contact eligible participants prior to the deadline date can be particularly effective in making sure participants have an opportunity to ask questions and get personalized help. As shown previously in Figure 5, for Plan E, default enrollment can be equally effective in reaching pre-retirees as well as retirees.

Advisor outreach and engagement was also effective for the opt-in plans in this study. As shown in Figure 8, enrollment rates were twice as high in plans that offered Income Checkups when communicating about Income+. Enrollment rates ranged from 20.7% to 24.4% when Advisors were involved compared to an average enrollment rate of 8.0% where there was no advisor outreach as part of the rollout communications campaign.[12]

Figure 8: Advisor Outreach in Active Enrollment Plans

Plan	Advisor Outreach Part of Income+ Communications	% Enrollment
Plan A	Yes	20.7
Plan B	No	8.0
Plan C	Yes	24.4

In the next section of this study, we will look at the impact of Income+ on the risk levels of participant portfolios.

[12] Professional Management was available in Plans A, B, and C prior to the introduction of Income+. At Plans A and C, planning sessions with Advisors offered during the Income+ communications campaign included participants age 60 and older currently using as well as those not using Professional Management. Plan B's existing enrollment was relatively lower than the existing enrollment at Plans A and C prior to implementing Income+.

Section Three: Income+ and Participant Portfolio Risk

For pre-retirees and retirees planning to use their 401(k) account for income, protecting their portfolios against loss is critical. With just a few years until retirement, this group has little time to make up for sudden losses.

In analyzing the risk levels of participants in this study, we found inappropriate risk prevalent among participants age 60 and older. Figure 9 shows the risk levels of participant portfolios both before and after enrollment into Professional Management with Income+

Figure 9: Participant Risk Levels Before and After Enrollment

Risk Level	Risk Level Before	Risk Level After	% Reduction
90th Percentile	1.7	1.1	37
Median	1.2	0.7	40
10th Percentile	0.7	0.6	7
Highest	3.2	1.6	49

One of the most common ways of measuring investment risk is to look at the standard deviation of a portfolio's returns, which indicates the likely variability of returns over a given time period. To provide a more meaningful comparison, we divide each portfolio's standard deviation by the overall market's standard deviation to give a scaled risk value. To put this into context, the S&P 500 index, representing an all-equity portfolio, has a risk level about 1.8 (i.e., 1.8 times as risky as the overall market). An all bond portfolio, such as the Barclays Capital US Aggregate index, has a risk level about 0.8 (i.e., 0.8 times as risky as the overall market).[13]

As shown in Figure 9, after adjusting participant portfolios, there was a 49% reduction of the highest levels of risk and a 40% reduction of the median risk level.

[13] S&P 500 and Barclays Capital US Aggregate risk levels are approximations and may change slightly month to month. The market portfolio, by definition, always has a risk level of 1.0.

As a consequence, participants using Professional Management with Income+ realized a dramatic drop in the potential one-year loss projections of their portfolios. Average potential one-year loss represents the 5th percentile of downside possible portfolio losses for the following 12 months. We measured the average potential one-year loss for the *pre-enrollment* portfolios of Income+ participants — when they signed on to use Income+ — and the average potential one-year loss of their portfolios once Financial Engines had adjusted their portfolios to each participant's targeted risk level. As shown in Figure 10 below, participants in this study saw an average 31% reduction in the potential one-year loss projections of their portfolios.

Figure 10: % **Reduction in Projected 1-Year Loss for Participants Enrolled in Income+**[14]

Sponsor	Pre-enrollment Average Projected 1-Year Loss %	Target Average Projected 1-Year Loss %	% Reduction in Projected 1-Year Loss
Plan A	11.8	10.6	10.0
Plan B	13.1	9.7	26.0
Plan C	12.1	10.7	12.0
Plan D	9.1	10.3	-13.0 [15]
Plan E	11.8	6.9	41.0
Average	**12.0**	**8.3**	**31.0**

[14] Includes only participants age 60 and older new to Professional Management at plans offering Income+.

[15] A high number of participants in this plan had nearly all of their assets in a stable value plan or money market fund and had low risk levels. Adding equity exposure to these participant's portfolios resulted in an increase in potential one year loss projections.

Conclusion

Retirement is a time of significant uncertainty for many people. Many near-retirees wonder: *How much will I need to live on? Will I have enough to last for the rest of my life? What do I do if I have an unexpected expense?* Finding answers to these questions can create a high level of anxiety and insecurity for most people.

With the 401(k) now the primary retirement savings account for many, how to turn their account into income and not run out adds significant complexity to the challenges already facing near-retirees and retirees. By offering Professional Management with Income+, employers can help participants with these tough questions regardless of the size of the individual's account. By the enrollment results seen at plans offering Professional Management with Income+, this report indicates that when help is offered by their employer, many pre-retirees and retirees will chose to use it.

This report also shows that many participants near retirement hold far too much risk in their portfolios. A high level of risk is particularly problematic for those close to retirement, as they have less time to recover in the event of a market downturn. Income+ is designed to help protect against big losses before retirement. This is why many plan sponsors are choosing to add Income+ now and are choosing default enrollment. As seen in this report, the portfolios of participants using Professional Management with Income+ saw a dramatic drop in potential short-term downside risk.

Finally, this report shows that plan sponsors have choices in how to implement Income+ to maximize the reach and impact of retirement income help within their employee populations. Defaulting near-retirees and retirees into Income+, along with outreach from an objective investment advisor representative, has proven to be a successful strategy to get help to the broadest number of participants.

While early results are based on a limited number of plans, this report provides important directional information for plan sponsors seeking to understand the needs of pre-retirees and retirees and for sponsors looking to provide investment help to the many and often overwhelming questions facing those who will depend on their 401(k) for retirement income.

About This Report

As of 12/31/2011, eight plans had rolled out Income+. Data used in this report are based on five plans that had completed participant communication and enrollment campaigns by 12/31/2011. Two of the five plans used default enrollment. Four plans already offered managed accounts when Income+ was rolled out; enrollment results include then current managed account members that were transitioned to, or remained in, Professional Management with Income+. All information in this report about enrollment rates subsequent to the completion of the Income+ campaign for those plans, or for participant segments within those four plans, should be considered in light of enrollment existing before the campaign. It is beyond the scope of this report to provide pre-existing enrollment broken out by plan or by participant segment. As stated in Section One, for the four plans already offering Professional Management when Income+ was made available, enrollment by participants age 60 and older averaged 8.7%.

Enrollment data were measured as of 2/9/2012. Comparison enrollment rates of managed accounts and appropriate target date fund usage were measured as of 3/31/2012 for the five plans where Income+ was available, and includes, unless otherwise noted, enrollment into Professional Management by participants age 60 and over, whether or not the Income+ feature was chosen by the participant.

Income+ eligibility is primarily based on participant age and years to retirement. Across the five plans in this study, approximately 23,000 participants were eligible for Income+.

References to potential one-year loss are based on the application of Financial Engines' forecasting methodology. This methodology projects the likelihood of various investment outcomes that are hypothetical in nature, do not reflect actual results or adjustment over time, and are not guaranties of future results. More specifically, it's the amount of loss that participants have a five percent chance of experiencing in one year, based on Financial Engines' simulations.

More About Income+

As the retirement income solution designed specifically for a generation of people who will depend on their 401(k)s for retirement income, Income+ is focused on delivering what plan participants and sponsors want.

Participants want…	Income+ delivers.
Flexibility	No need to lock into an insurance solution at retirement.
Control	Money stays in the 401(k) account, with no penalties for cancellation or charges.
Safety	Helps protect against losses before retirement; provides steady payouts in retirement.
Help	An independent advisor offers help and advice when needed.

Sponsors want…	Income+ delivers.
No Hassle	No plan lineup changes required—no need to add an annuity to the plan.
No Lock-In	There's no fiduciary lock-in and no need for in-plan insurance.
No Counterparty Risk	No exposure or risk associated with monitoring insurer counterparty risk.
No Bias	Non-commissioned advisor representatives provide retirement help.
No High Fees	Income+ has no additional fees for sponsors or managed account participants.

We use a liability-driven investing approach often used in defined benefit plans to create personalized portfolios that can generate steady retirement payouts. When an Income+ member is ready to start taking payouts from their 401(k) account, their portfolio is managed to provide monthly payouts that:

- are steady with limited downside
- can last for life with an out-of-plan annuity
- can go up with the market
- are flexible

To learn more about Income+, please contact Financial Engines at (877) 312-4766 or at workingwithus@financialengines.com.

Financial Engines
1050 Enterprise Way, 3rd Floor
Sunnyvale, CA 94089

www.financialengines.com

CPY07929
FE-G-bk-ICP_Report-102312