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Building the Retirement Tier

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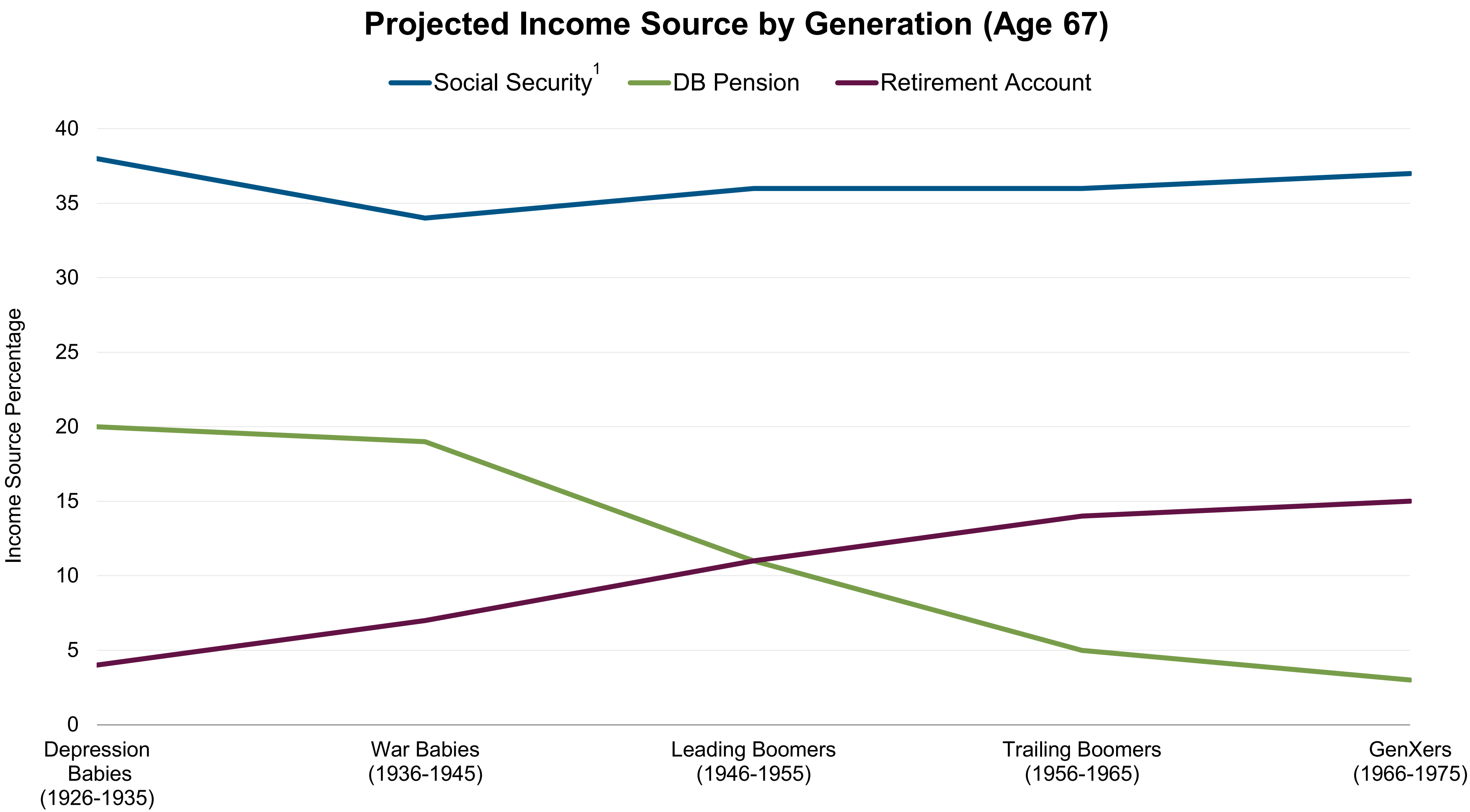
New retirees rely on DC assets more than ever



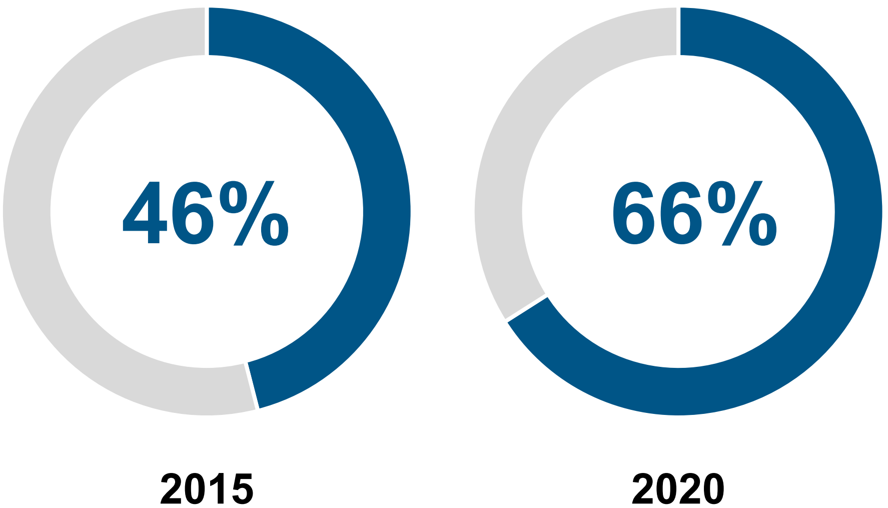
[1]Social Services Agency. SOURCE: Butrica, Barbara A., Karen E. Smith, and Howard M. Iams. 2012. “This Is Not Your Parents’ Retirement: Comparing Retirement Income Across Generations.” Social Security Bulletin 72(1): 37–58

The time has come to add The Retirement Tier

Defining it simply…

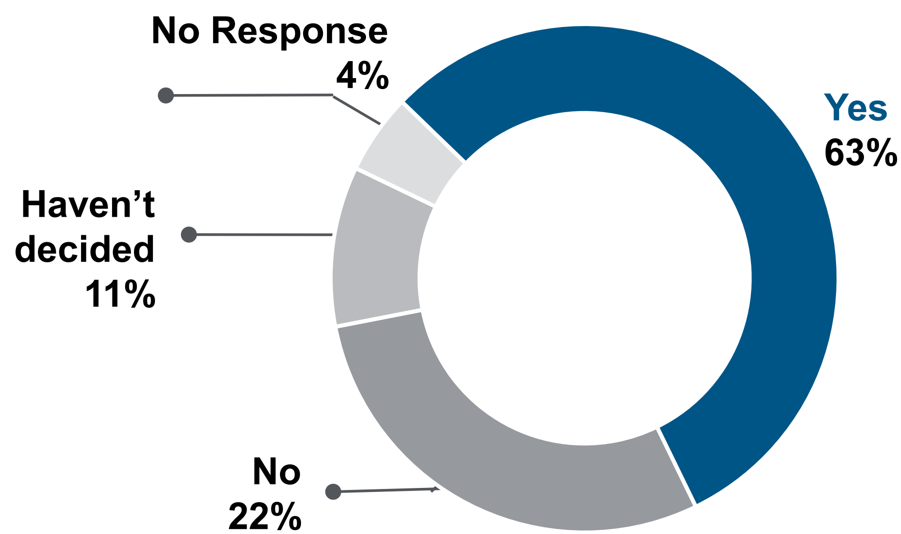
The **Retirement Tier**[1] is a range of products, solutions, tools and services, which allows a DC plan sponsor supports participants who are near, entering, or in retirement.

Sponsor Views on Retiree Retention[2]



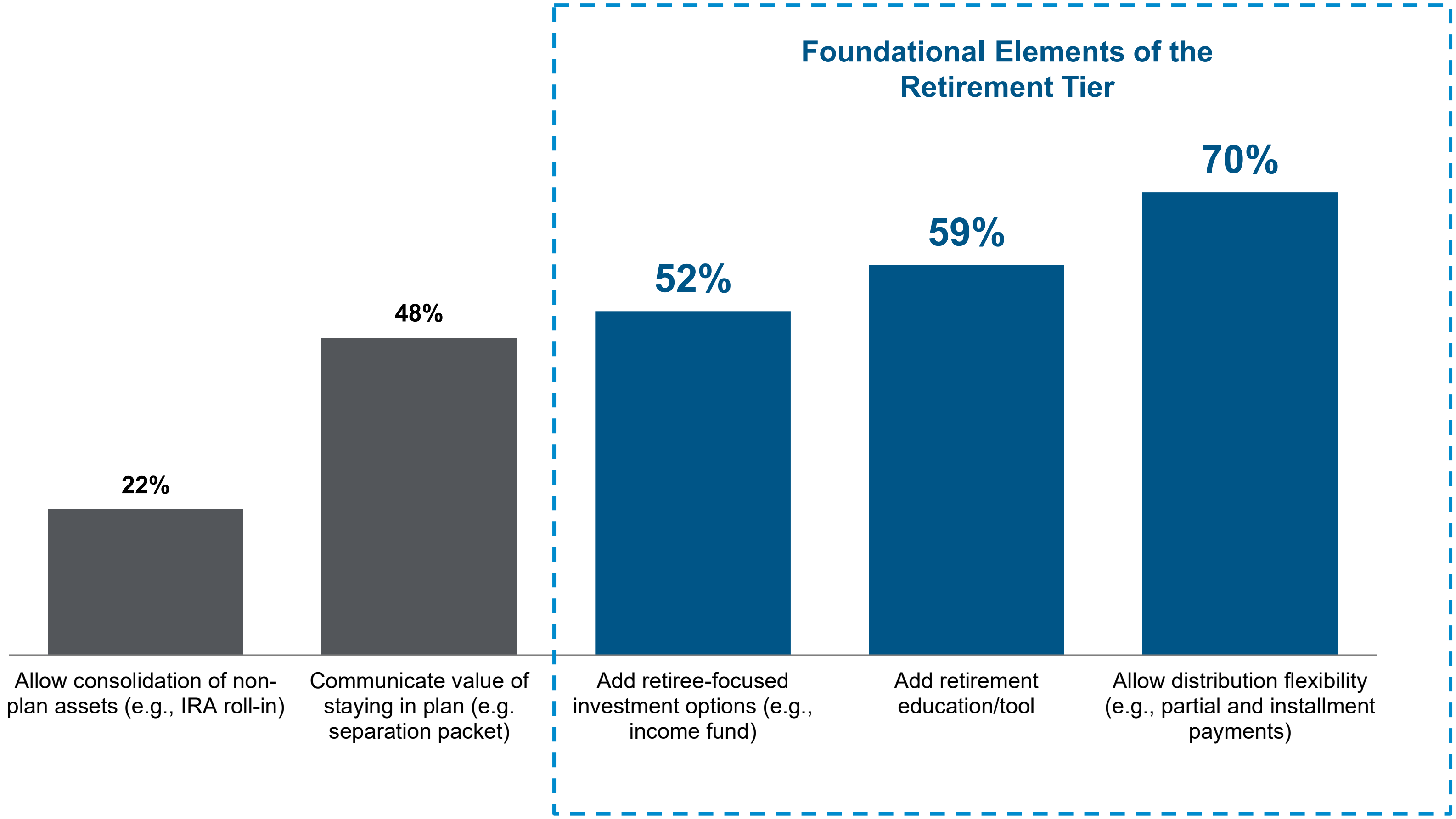
Q: Approximately What percent of your plan sponsor clients take the above views on retaining retired participants' assets in their plan?

Consultants' Advocacy for the Retirement Tier[2]



SOURCE: [1]The retirement tier as defined by the Defined Contribution Institutional Investment Association. [2]2020 PIMCO Defined Contribution Consulting Survey

Consultant recommendations for retiree retention form the basis of the Retirement Tier



Q: What actions should plan sponsors take to encourage retirees to retain their assets in the plan?

SOURCE: 2020 PIMCO Defined Contribution Consulting Survey

Preferred retirement income characteristics

4-5%
Distribution Yield

Preferred by 77% of consultants

Monthly
Distribution Frequency

Preferred by 89% of consultants

<40%
Equity Exposure

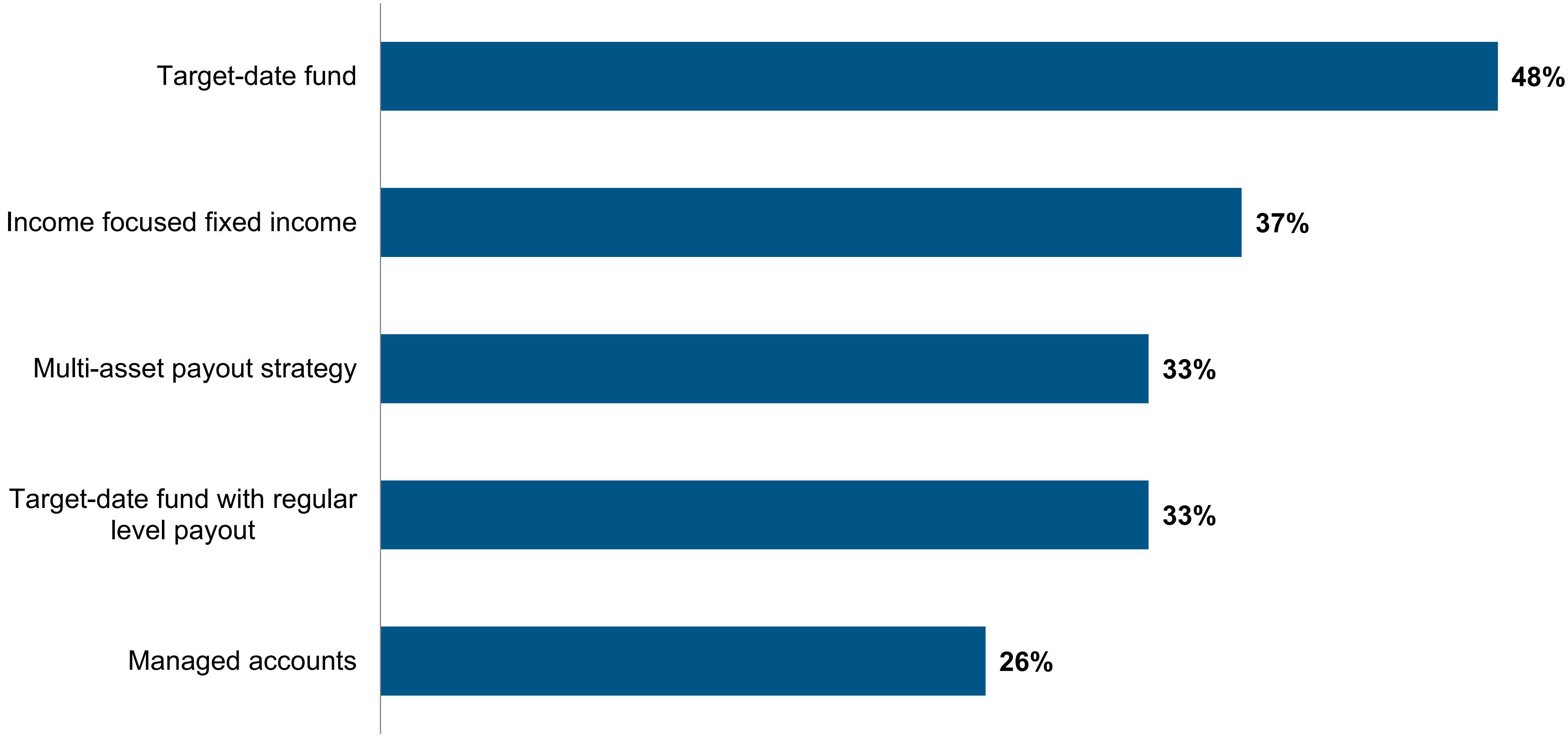
Preferred by 63% of consultants

<10%
Maximum Drawdown

Median consultant response

SOURCE: 2020 PIMCO Defined Contribution Consulting Survey

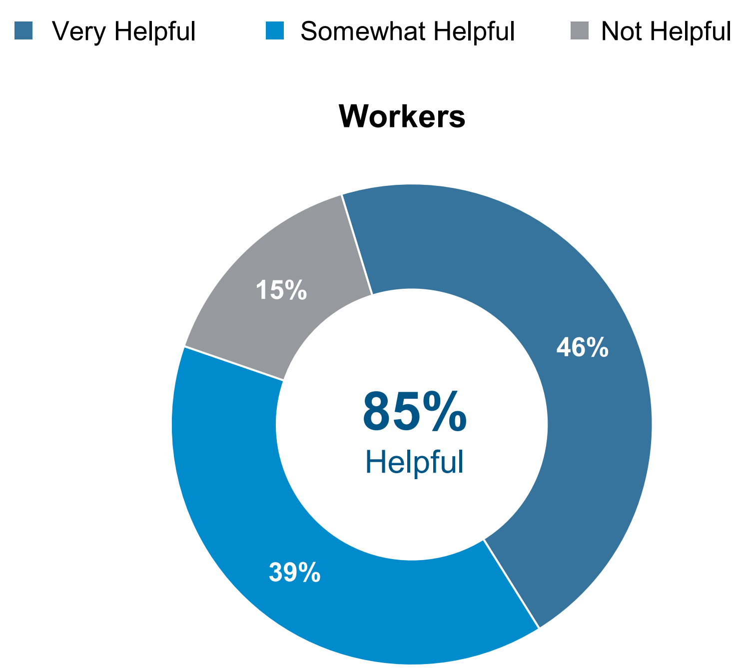
Top recommended retirement income solutions by Consultants



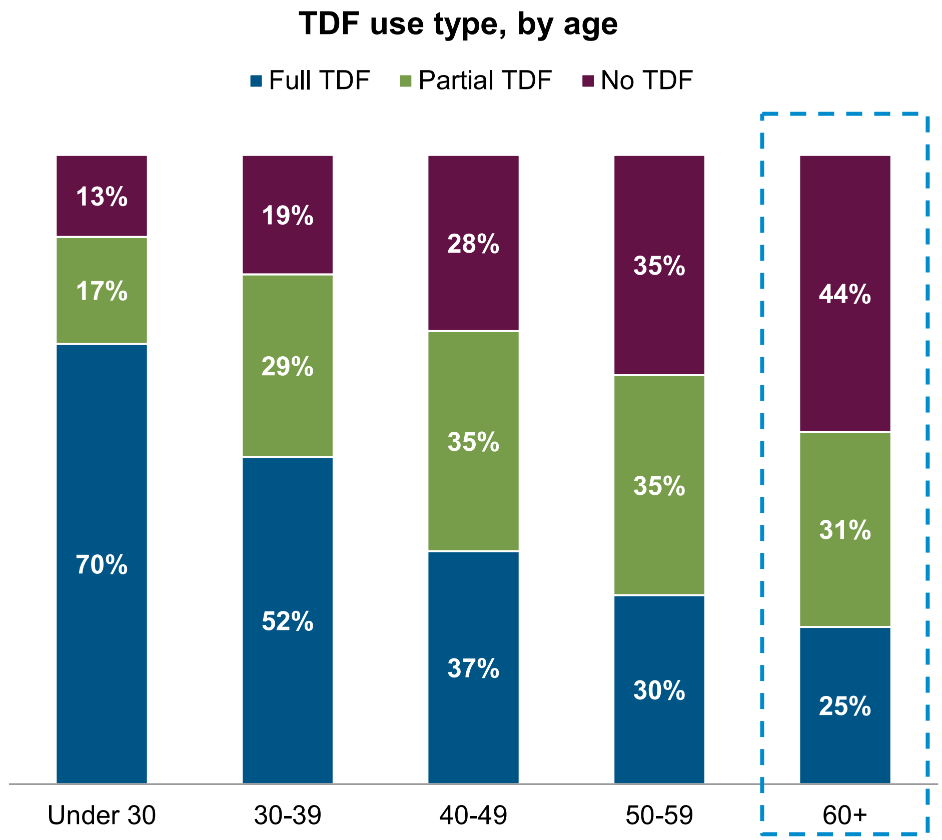
SOURCE: 2020 PIMCO Defined Contribution Consulting Survey

Near retirees are asking for help as the QDIA is not meeting their needs

7 in 10 retirees welcome employer advice on converting savings into income[2]



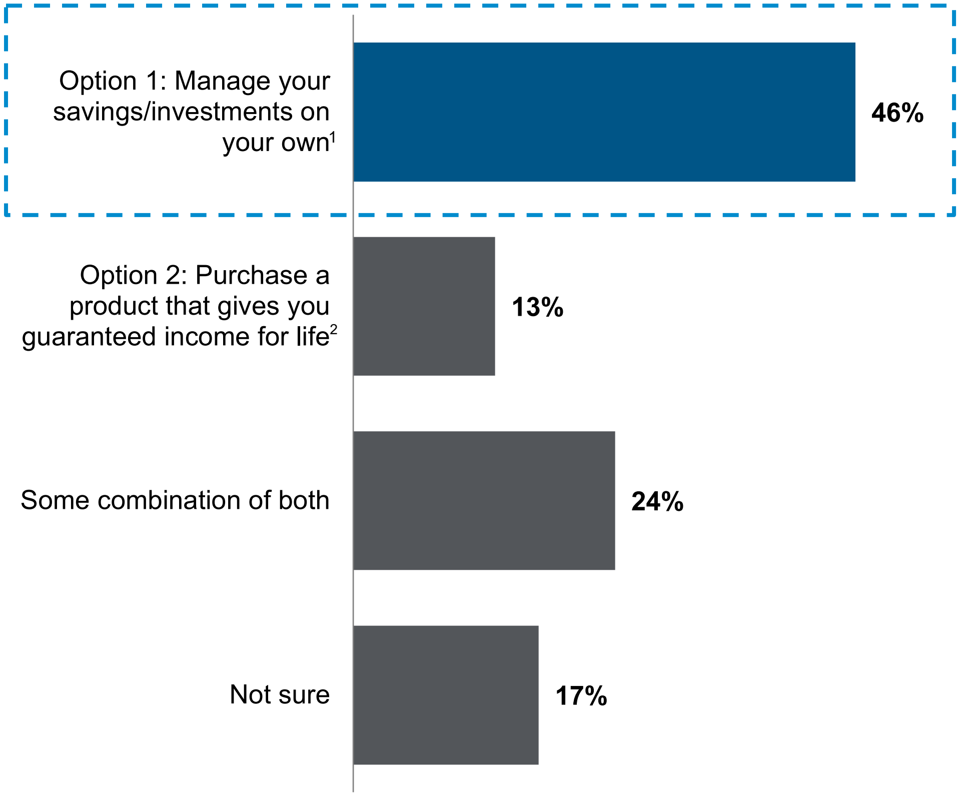
Few retirees invest solely in the QDIA[1]



SOURCE: [1] 2019 Alight "Five Surprising Facts about Target Date Funds". [2] 2020 Employee Benefit Research Institute Retirement Confidence Survey

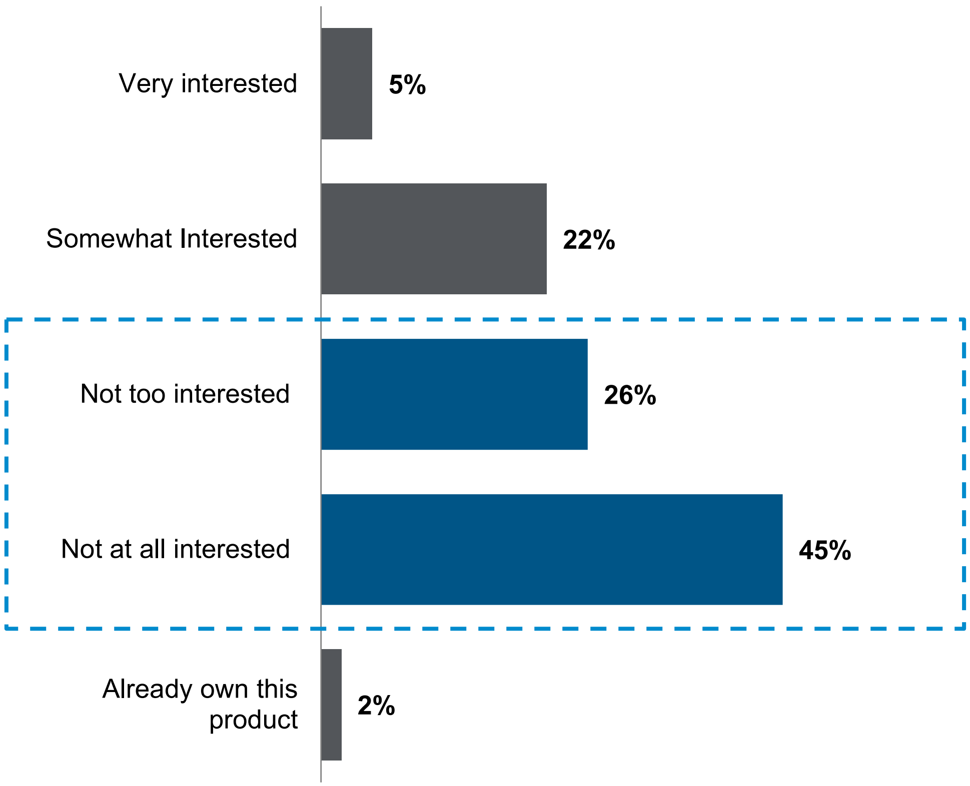
Retirees prefer to maintain control over their assets

~50% of Retirees Prefer to Control Their Assets



Q: Which approach are you most likely to take in managing assets and generating income in retirement?

3 in 4 Retirees Show Little Interest in Guarantees

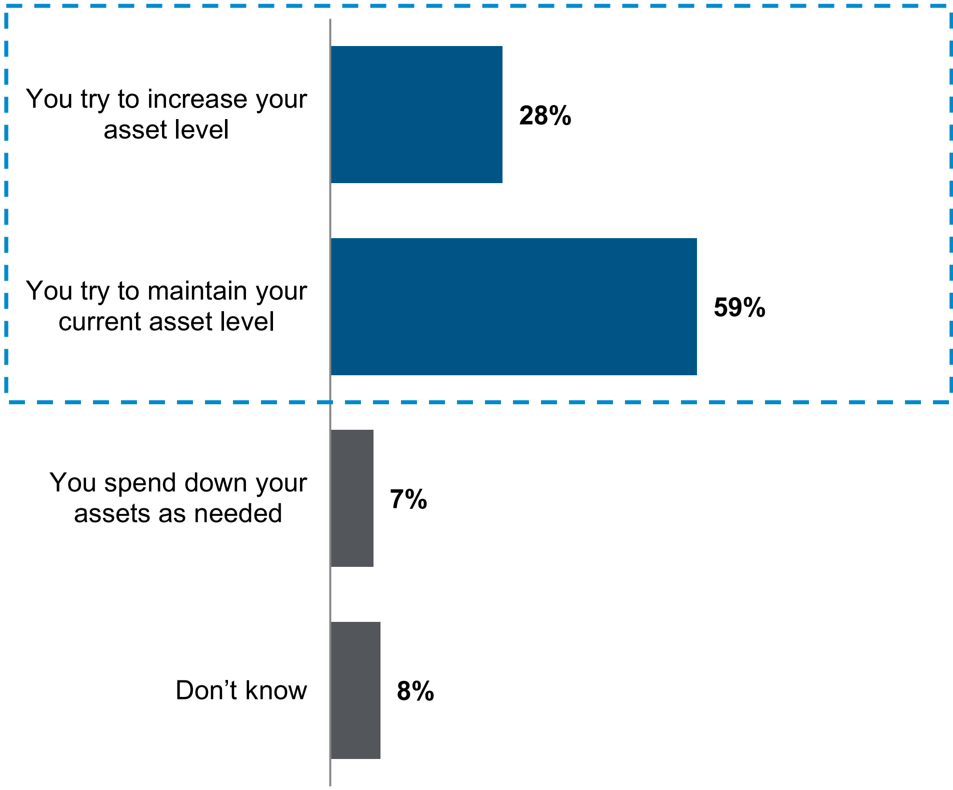


Q: At retirement, how interested will you be in purchasing an insurance product that begins providing guaranteed monthly income in the future, such as age 80 or 85?

SOURCE: 2020 Employee Benefit Research Institute Survey.[1]Option 1:You manage your savings and investments and determine your own strategy for generating income. This approach gives you control over your investments and withdrawals. You can choose investments with higher or lower fees. It does not guarantee income for life and your investments may lose money. [2]Option 2:You purchase a product that guarantees you a set amount of monthly income for life. Monthly income would vary based on how much you "purchased." This approach gives you little control over those assets. The fees may be higher than other financial products because of the guarantee it provides.

Retirees want to maintain or grow their assets

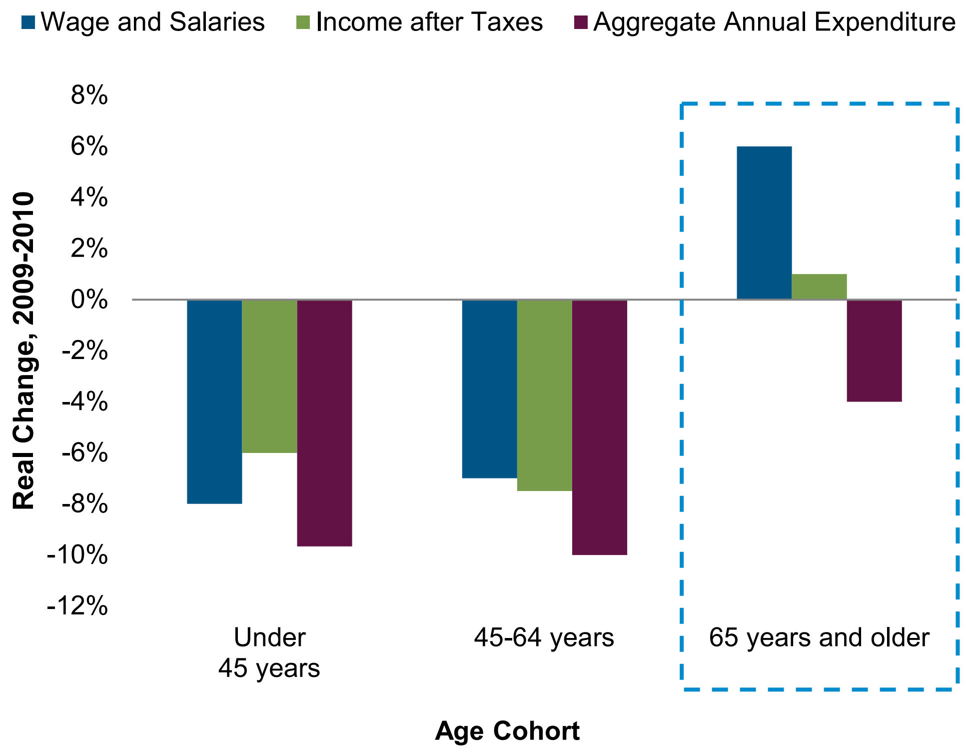
What Retirees Say[1]



Q: Which one of the following best represents your behaviour when it comes to your level of assets?

What Retirees Do

Retiree income and expenditures by age group[2]



SOURCE: [1,3]2020 Employee Benefit Research Institute Survey. [2]PIMCO. "Asset Decumulation or Asset Preservation? What Guides Retirement Spending". Published Apr 2018.
*Low pre-retirement, non-housing assets defined as less than $200,000, moderate as $200,000 to $500,000 and high as greater than $500,000

Why tie spending to income?
Simulation Assumptions

Initial Wealth	Average Long-Term Spending Goal
$1,000,000	**$40,000**

Investment Details

3% Expected Income Return + **1%** Expected Price Return = **4%** Expected Total Return

8% Annual Volatility

Spending Strategy

Fixed approach	Income-based approach
Annual Spending	
$40,000	3% Income + $10,000

Hypothetical example for illustrative purposes only.
SOURCE: PIMCO. Refer to Appendix for additional hypothetical example information, return assumption and risk information.

Why tie spending to income?

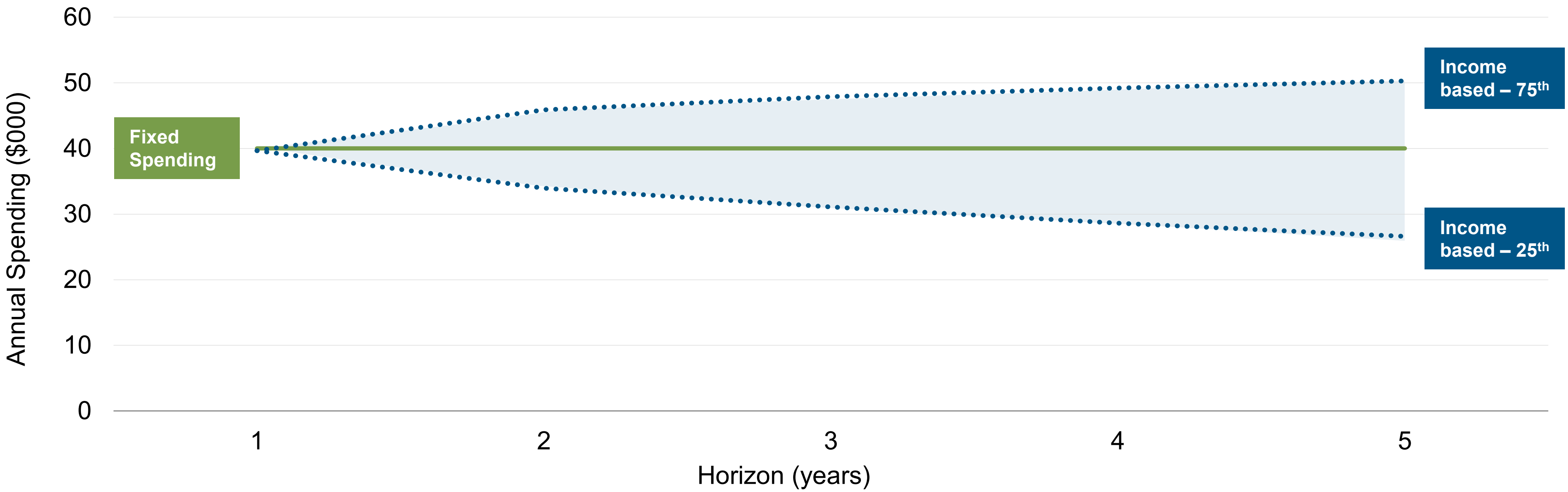
Income-based spending automatically adjusts to market conditions

Average Long-Term Spending Goal

$40,000

Spending Strategy

Fixed approach	Income-based approach
Annual Spending	**Annual Spending**
$40,000	3% Income + $10,000



Hypothetical example for illustrative purposes only.

SOURCE: PIMCO. Simulation assumes $1 million in initial wealth, target spending of $40,000 per year. Both cases are invested in a portfolio with 3% income, and total expected returns of 4% and volatility of 8% per year. In the fixed spending case, $40,000 is withdrawn each year regardless of market activity. In the income based approach, the income from the investments is spent, plus an additional $10,000, such that total expected spending is identical in each case, but has some volatility in the income based spending approach. Refer to Appendix for additional hypothetical example information, return assumption and risk information.

Why tie spending to income?

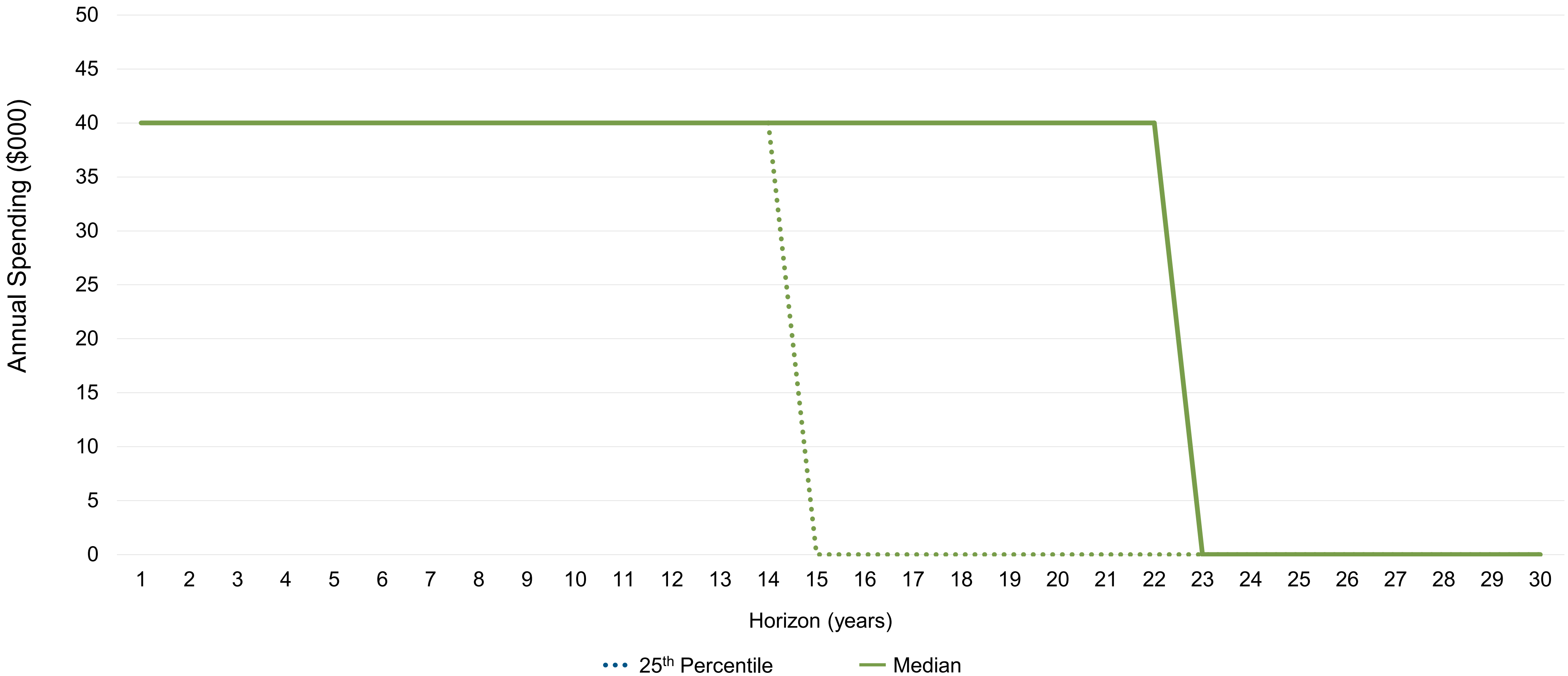
A fixed spending approach ignores market volatility at the expense of asset longevity

Average Long-Term Spending Goal

$40,000

Spending Strategy

Fixed approach
Annual Spending
$40,000



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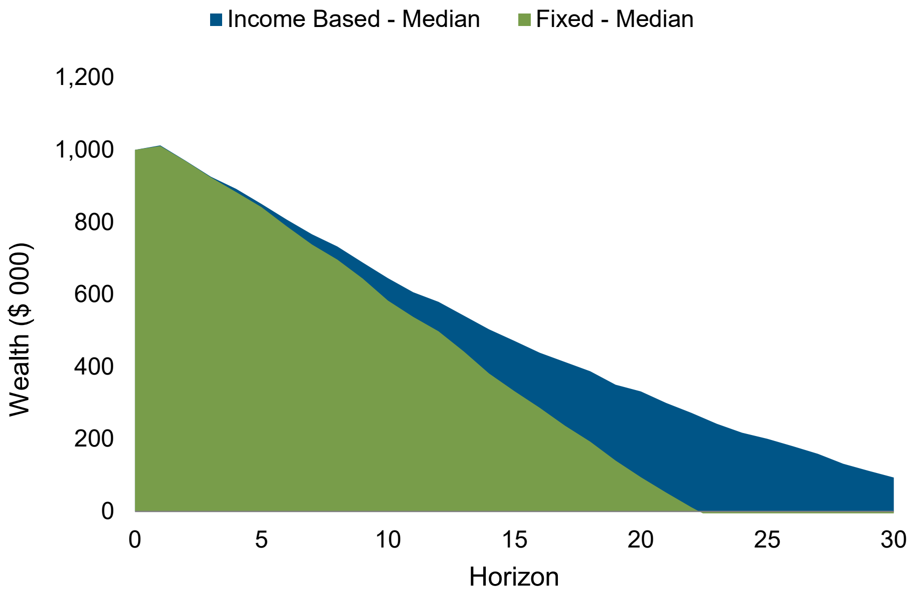
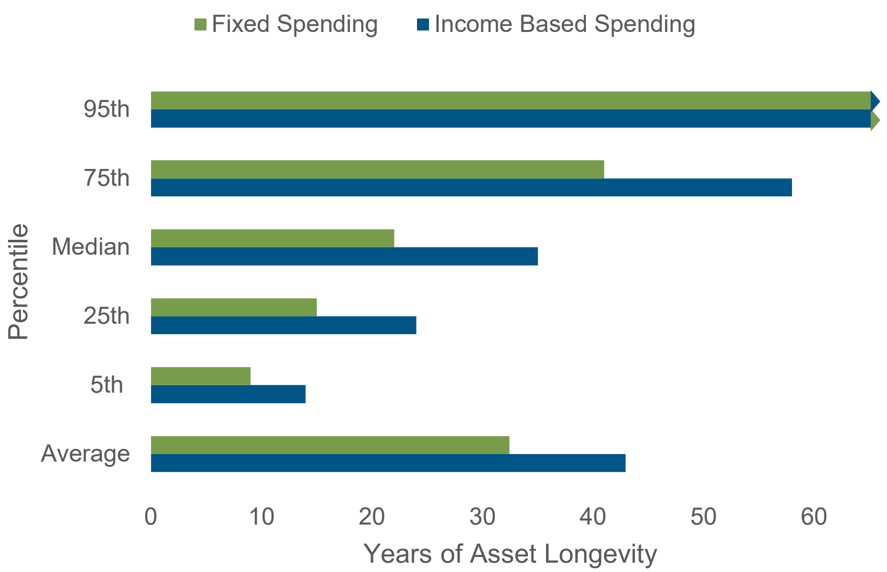
Why tie spending to income?

Income-based spending may lead to greater flexibility and increased asset longevity





Anchoring spending to investment income has several potential benefits

Automatically reduces sequencing risk

Extends the longevity of assets

Improves retiree resiliency

Hypothetical example for illustrative purposes only.

SOURCE: PIMCO. Simulation assumes $1 million in initial wealth, target spending of $40,000 per year. Both cases are invested in a portfolio with 3% income, and total expected returns of 4% and volatility of 8% per year. In the fixed spending case, $40,000 is withdrawn each year regardless of market activity. In the income based approach, the income from the investments is spent, plus an additional $10,000, such that total expected spending is identical in each case, but has some volatility in the income based spending approach. Refer to Appendix for additional hypothetical example information, return assumption and risk information.

Retirement tier solutions should be income-oriented with appropriate volatility

Income Orientation

- Majority of returns should be derived from income vs. price appreciation
- May appeal to retirees who wish to consume predominantly from income vs. principal
- An income-based approach may help extend asset longevity

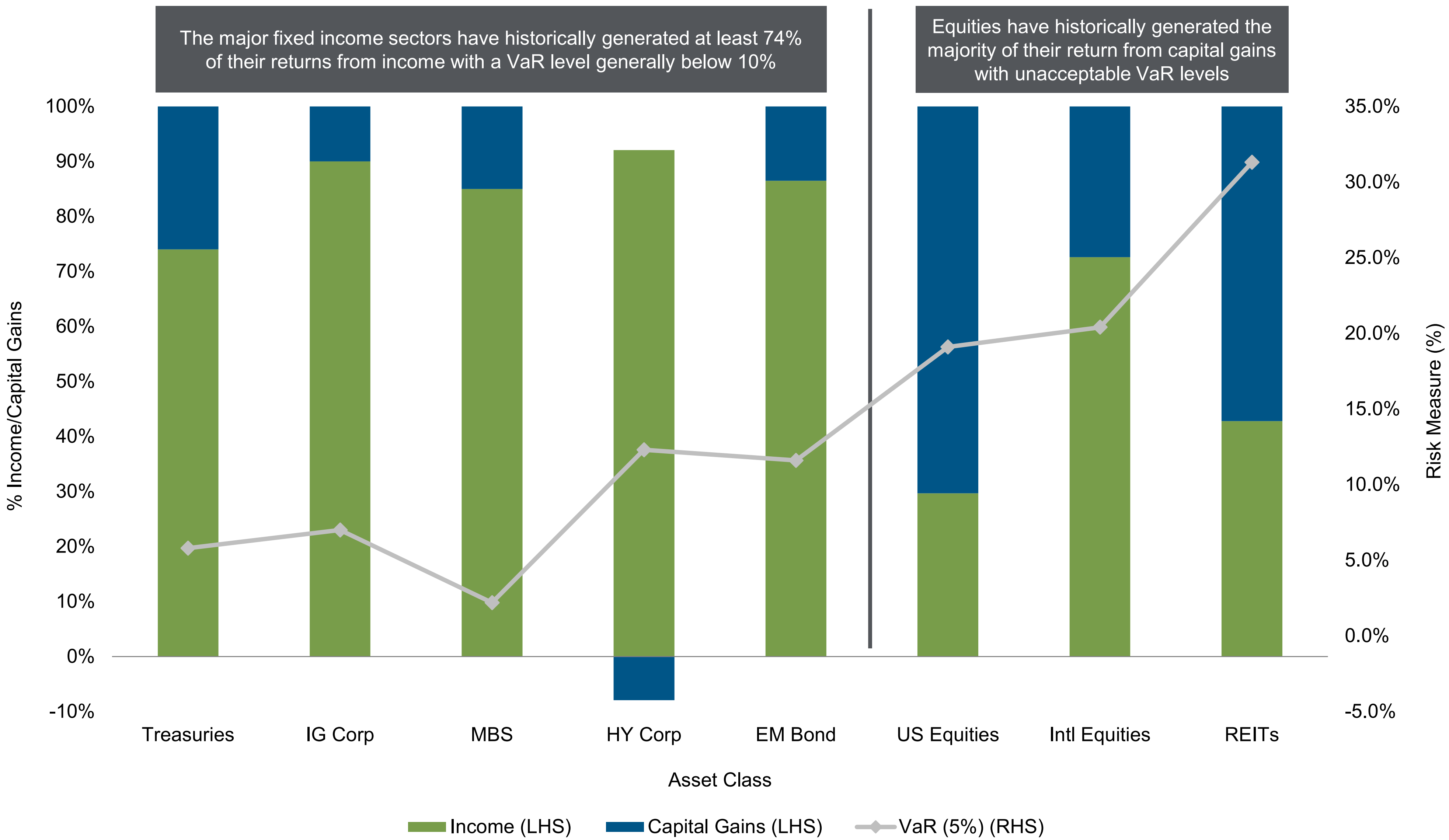
Appropriate Volatility

- Given uncertain spending needs, retirees cannot tolerate an inordinate amount of portfolio volatility
- Consultants have shown a strong preference for downside risk of no more than 10%[1]
- A moderate risk level helps control sequence-of-return risk for retirees who need to consume some principal

Retirement Tier Solutions

Hypothetical example for illustrative purposes only.
SOURCE: PIMCO. [1] 2020 PIMCO Defined Contribution Consulting Survey

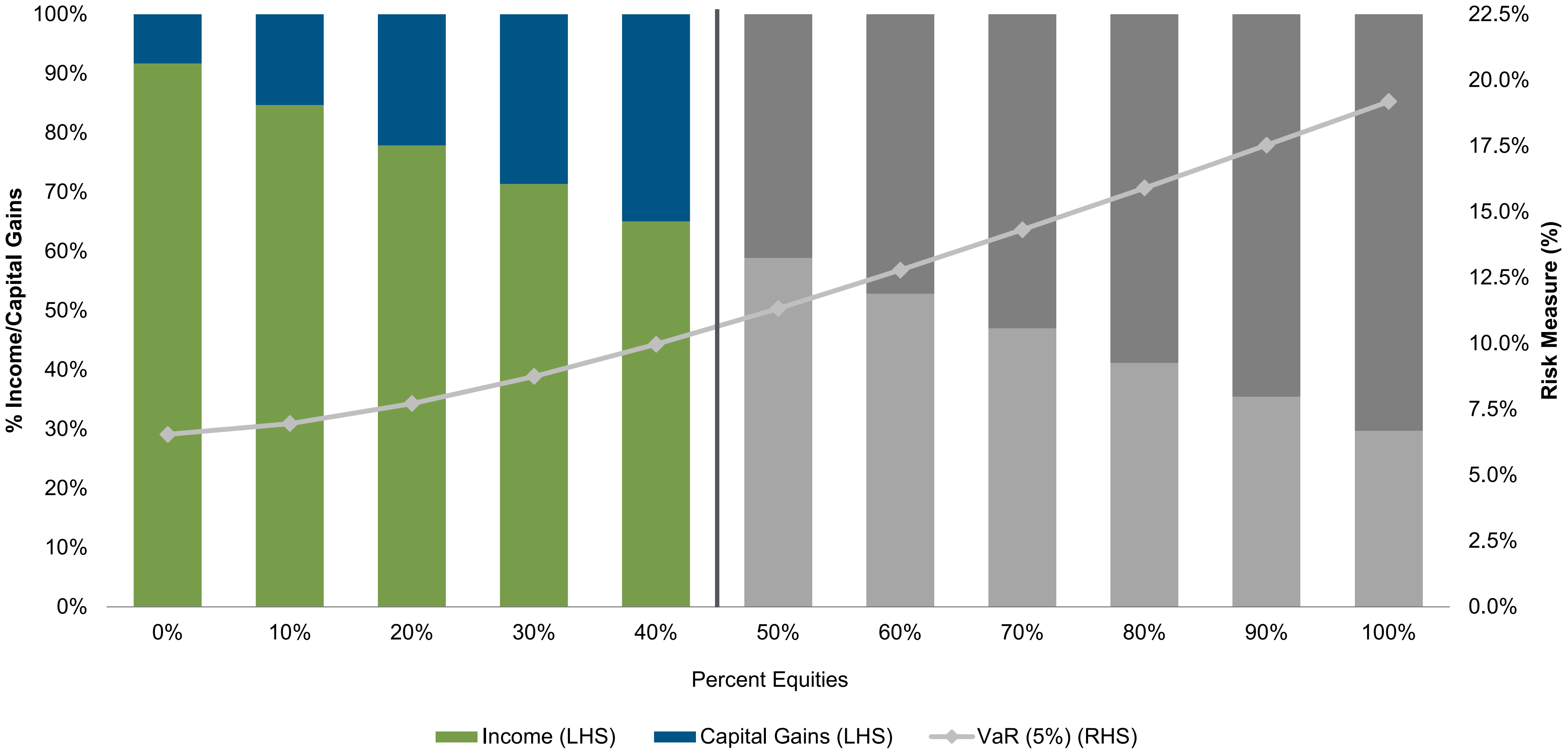
Building the Retirement Tier:
Which asset classes satisfy these income and risk criteria?



SOURCE: PIMCO and Bloomberg. Data from 31 January 2001–28 February 2020. Index proxies are as follows: Treasuries, Bloomberg Barclays US Treasury Index; IG corp, Bloomberg Barclays US Corporate Index; MBS, Bloomberg Barclays US MBS Index; HY corp, Bloomberg Barclays HY Index; EM bond, Bloomberg Barclays EM USD Aggregate Index; U.S. equities, S&P 500 Index; Int'l equities (DMEQ), MSCI EAFE Index; REITs, Dow Jones US Select REIT Index. **Past performance is not a guarantee or reliable indicator of future results.** Refer to Appendix for additional index and risk information.

Building the Retirement Tier:
How much equity risk is appropriate?

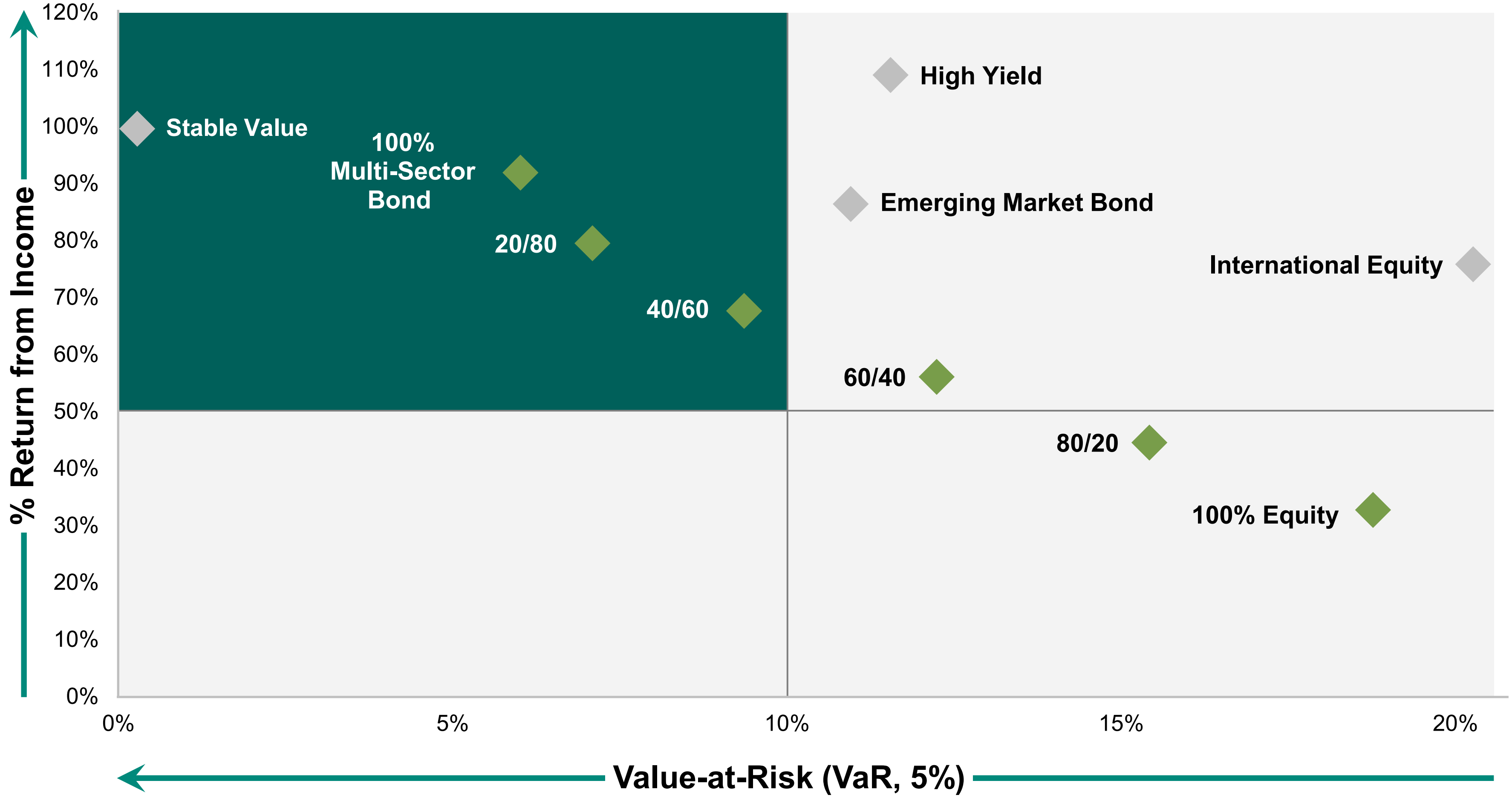
Portfolios up to 40% equity are generally reasonable, with income and risk levels appropriate for retirees



Hypothetical example for illustrative purposes only.

SOURCE: PIMCO and Bloomberg. Data from 31 January 2001–28 February 2020. The fixed income portion of the portfolio is comprised of 25% each in MBS, IG Credit, HY, and EM. We varied the allocation between the fixed income portfolio and equities to determine the impact on income level and risk. Index proxies are as follows: IG corp, Bloomberg Barclays US Corporate Index; MBS, Bloomberg Barclays US MBS Index; HY corp, Bloomberg Barclays HY Index; EM bond, Bloomberg Barclays EM USD Aggregate Index; U.S. equities, S&P 500 Index. Refer to Appendix for additional asset allocation, hypothetical example, index, investment strategy and risk information.

Building the Retirement Tier:
Investment solutions appropriate for the Retirement Tier

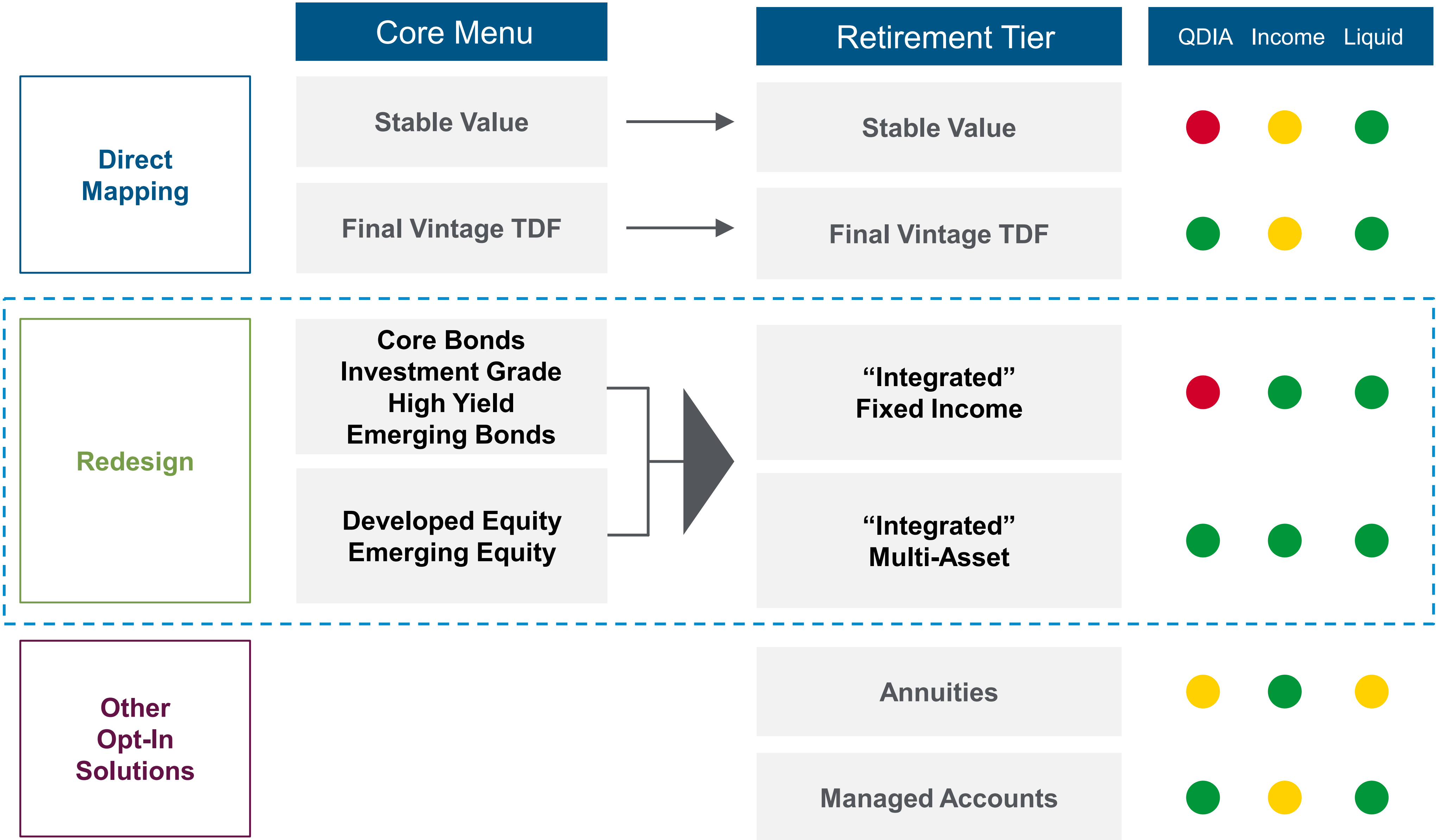


Hypothetical example for illustrative purposes only.

SOURCE: PIMCO and Bloomberg. Data from 31 January 2001–28 February 2020. The fixed income portion of the portfolio is comprised of 25% each in MBS, IG Credit, HY, and EM. The equity allocation is 100% SP&P 500. The portfolios shown above are a mix of the fixed income and equity allocations outlined here. We varied the allocation between the fixed income portfolio and equities to determine the impact on income level and risk. Pro-rated Index proxies are as follows: Stable Value represented by the Hueler Analytics Stable Value index. IG corp, Bloomberg Barclays US Corporate Index; MBS, Bloomberg Barclays US MBS Index; HY corp, Bloomberg Barclays HY Index; EM bond, Bloomberg Barclays EM USD Aggregate Index; U.S. equities, S&P 500 Index. Refer to Appendix for additional asset allocation, hypothetical example, index, investment strategy and risk information.

Building the Retirement Tier

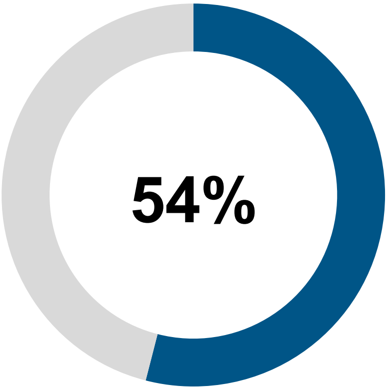
Bringing it all together



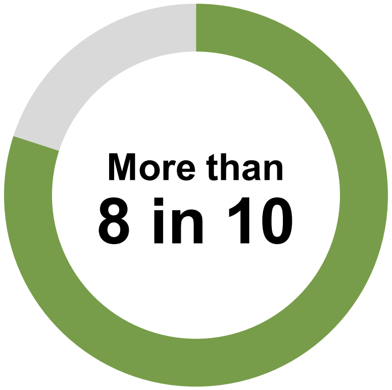
For illustrative purposes only. Source PIMCO

Employees and retirees depend on education from their employers

Introducing a retirement tier is a consequential step and merits an exceptional communications strategy to ensure employee and retiree awareness and understanding



Over half (54%) of employees believe their employers have a responsibility for their financial wellbeing.[1]



More than 8 in 10 would find workplace help on converting savings to income helpful.[2]

[1]2020 MetLife Employee Benefit Trends Study
[2]2020 Employee Benefit Research Institute Survey

Introducing the Retirement Tier

Techniques you can incorporate in your communication strategy today

Introducing The Retirement Tier

- Make it a big event
- Recruit leadership to lead the narrative
- Communicating the purpose is just as important as communicating performance
- Segment your audiences sensibly
- Revisit your retiree separation communications
- Realign how you display investment options

General Best Practices

- Repetition is your friend
- Personalize communications as much as possible; or
- Use examples and sample profiles
- Use multi-media
- Help them know what they don't know
- Lean on your providers

Key Takeaways

As a proportion of retiree spending, DC assets are now second only to Social Security. Consultants and sponsors recommend adapting plans to better support retirees, namely via retirement tier

Retirement tier investments should be income oriented and carry only moderate levels of volatility to address three clear retiree preferences: to 1) maintain or grow asset balances, 2) anchor spending to income, and 3) retain control over and flexibility in their investments.

Linking retirement spending to income generated from such investments may help participants to better preserve asset balances, which increases the flexibility and longevity of their wealth.

Participants need guidance on how to appropriately utilize their DC assets in retirement. A focused, effective communications program is a vital element of developing or expanding a retirement tier.

For illustrative purposes only. Source PIMCO

Appendix

Past performance is not a guarantee or a reliable indicator of future results.

ASSET ALLOCATION
Asset allocation is the process of distributing investments among various classes of investments (e.g., stocks and bonds). It does not guarantee future results, ensure a profit or protect against loss.

CHART
Charts are provided for illustrative purposes and are not indicative of the past or future performance of any PIMCO product.

HYPOTHETICAL EXAMPLE
Hypothetical performance results have many inherent limitations, some of which are described below. No representation is being made that any account will or is likely to achieve profits or losses similar to those shown. In fact, there are frequently sharp difference between hypothetical performance results and the actual results subsequently achieved by an particular trading program.
One of the limitations of hypothetical performance results is that they are generally prepared with the benefit of hindsight. In addition, hypothetical trading does not involve financial risk, and no hypothetical trading record can completely account for the impact of financial risk in actual trading. For example, the ability to withstand losses or adhere to a particular trading program in spite of trading losses are material points which can also adversely affect actual trading results. There are numerous other factors related to the markets in general or to the implementation of any specific trading program which cannot be fully accounted for in the preparation of hypothetical performance results and all of which can adversely affect actual trading results.

INVESTMENT STRATEGY
There is no guarantee that these investment strategies will work under all market conditions or are appropriate for all investors and each investor should evaluate their ability to invest long-term, especially during periods of downturn in the market. No representation is being made that any account, product, or strategy will or is likely to achieve profits, losses, or results similar to those shown.

OUTLOOK
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RETURN ASSUMPTIONS
Return assumptions are for illustrative purposes only and are not a prediction or a projection of return. Return assumption is an estimate of what investments may earn on average over the long term. Actual returns may be higher or lower than those shown and may vary substantially over shorter time periods.

RISK
All investments contain risk and may lose value. Investing in the **bond market** is subject to risks, including market, interest rate, issuer, credit, inflation risk, and liquidity risk. The value of most bonds and bond strategies are impacted by changes in interest rates. Bonds and bond strategies with longer durations tend to be more sensitive and volatile than those with shorter durations; bond prices generally fall as interest rates rise, and low interest rate environments increase this risk. Reductions in bond counterparty capacity may contribute to decreased market liquidity and increased price volatility. Bond investments may be worth more or less than the original cost when redeemed. **Equities** may decline in value due to both real and perceived general market, economic and industry conditions.

Appendix

INDEX
It is not possible to invest directly in an unmanaged index.

VAR
Value at Risk (VAR) estimates the risk of loss of an investment or portfolio over a given time period under normal market conditions in terms of a specific percentile threshold of loss (i.e., for a given threshold of X%, under the specific modeling assumptions used, the portfolio will incur a loss in excess of the VAR X percent of the time. Different VAR calculation methodologies may be used. VAR models can help understand what future return or loss profiles might be. However, the effectiveness of a VAR calculation is in fact constrained by its limited assumptions (for example, assumptions may involve, among other things, probability distributions, historical return modeling, factor selection, risk factor correlation, simulation methodologies). It is important that investors understand the nature of these limitations when relying upon VAR analyses.

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