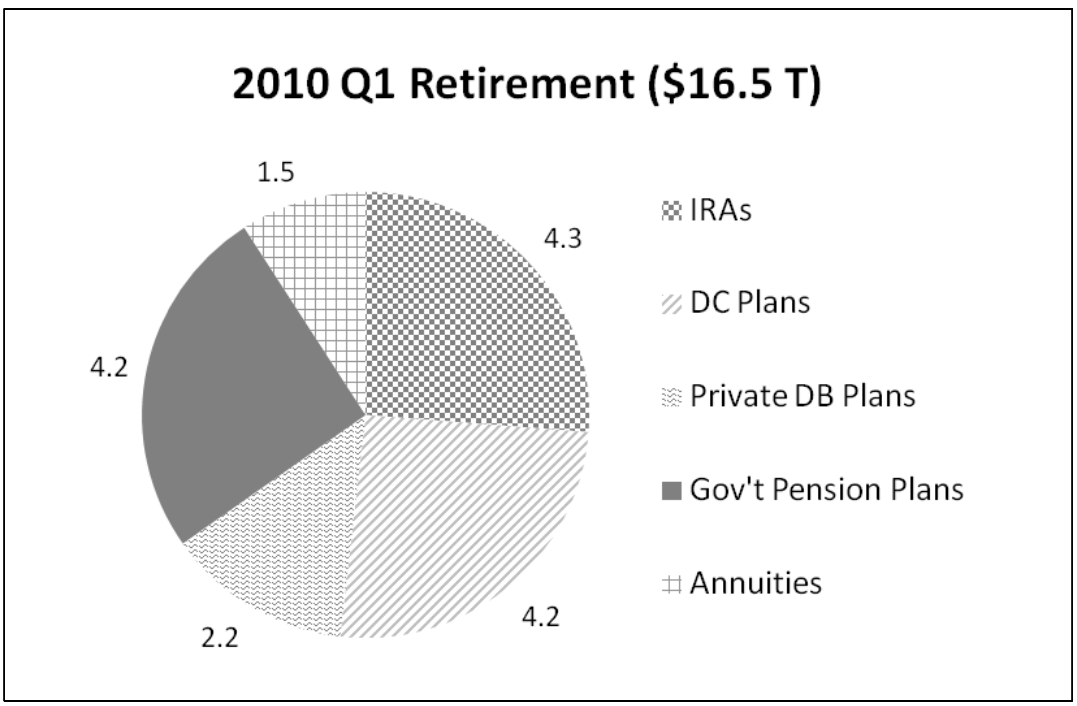
Chapter 1

Retirement Industry in America

The Investment Company Institute (ICI) reports Americans held $16.5 trillion in retirement assets at the end of the first quarter of 2010. The amount is a compilation of account balances in 401(k), 403(b), and 457 defined contribution plans as well as defined benefit plans, annuities, government pension plans, and Individual Retirement Accounts (IRAs). The account balance can be broken down into five main groupings: IRAs $4.3 trillion; employer-sponsored defined contribution (DC) plans $4.2 trillion; federal, state and local government pension plans totaling $4.2 trillion; private defined benefit (DB) plans $2.2 trillion; and annuities $1.5 trillion. Additionally, the ICI reports that 39% of all American households own some form of IRA, with 36% of household's assets being in the form of retirement savings.



Source: ICI

In recent years the size of the retirement industry has grown from $10.5 trillion in 2002 to a high of $17.9 trillion in 2007. As Americans continue to save and invest for retirement, the total size of the retirement industry should grow steadily for at least the next 20 years.

The number of people employed in the retirement industry is much harder to estimate because employers do not always segregate retirement duties from other responsibilities. The Bureau of Labor Statistics (BLS) estimates there are 208,400 personal financial advisors as of May 2008 with a median wage of $69,050 per year. To capture the entire retirement industry additional classifications would also need to be considered, such as financial analysts and financial specialists. If the BLS estimates of the 83,740 people employed in these areas were included in the estimate of retirement industry employment, the total would rise to 292,140. The BLS estimates are conservative because they do not include self-employed workers in this field.

An important segment of the retirement industry can be measured using certifications. The Certified Financial Planner® (CFP®) is a popular designation among financial planners, and the CFP Board announced in August, 2010 approximately 63,000 people have earned the CFP® designation. A recent article in Investment News estimated the size of just the financial planning sector to be between 150,000 to 300,000 people.[1] Another approach would be to simply measure employment in the top retirement industry employers in the country. A conservative estimate of the top ten companies in the industry would put the total employment over 250,000 people. The

[1] August 22, 2010 *Investment News* article "CFP Board to focus on 'higher-level' topics in exams" by Mark Schoeff Jr. Retrieved August 23, 2010.

BLS estimates the demand for workers in this area to grow by 30% from 2008 to 2018, much faster than the average for all occupations.[2]

Types of Retirement Accounts

Americans have many different tax-advantaged ways to save for retirement. Some of the most common products include 401(k)s, 403(b)s, annuities, pensions, and other investments like real estate. Broadly speaking there are two different types of retirement plans: defined contribution plans and defined benefit plans. Most Americans today participate in some form of defined contribution plan. Defined contribution plans can take many different forms including: 401(k), 403(b), 457, simplified employee pension (SEP), savings incentive match plans for employees (SIMPLE), employee stock ownership plans (ESOP), profit sharing, stock bonus and savings or thrift plans. The primary difference between defined benefit and defined contribution types of plans is who bears the investment risk. With a defined benefit plan, the employer promises to pay a specified amount to the employee during retirement, and thus the employer bears the risk of managing the employees' retirement funds. Under a defined contribution plan, the employer's responsibility ends once the promised contribution has been made into the employee's account; the employee is then responsible for selecting appropriate investments.

Companies in the retirement industry can be differentiated by how they serve the markets. For example, are they employer based, like administrators of 401(k) and 403(b) plans, or are they retail based, like insurance agents who sell annuities to individual customers. The employer-based segment can be further subdivided into private and public employers, and subdivided again into defined benefit or defined contribution plans. In the employer-based

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[2] *Occupational Outlook Handbook, 2010-11 Edition*. www.bls.gov/oco/ocos302.htm