

**Department of Labor and the Securities and Exchange Commission Hearing  
on Issues Related to Investments in Target Date Funds  
and Similar Investment Options by 401(k) Participants and Other Investors**

**June 18, 2009**

**Testimony of Financial Engines, Inc.: Anne Tuttle, Executive Vice President and  
General Counsel, presenting**

Thank you for the opportunity to testify today.

Financial Engines is an independent investment advisor founded by Bill Sharpe, awarded the Nobel Prize in Economics in 1990, and Joe Grundfest, a former SEC Commissioner. We offer services to plan participants through leading employers, including 112 of Fortune 500 – reaching over 7.4 million participants. Financial Engines provides both discretionary investment management (managed accounts) and non-discretionary investment advice (online advice), in both cases as a fiduciary to the plan participants. We also provide access to investment adviser representatives via phone, and retirement evaluations and forecasts of potential future retirement income from Social Security, 401(k), defined benefit or cash balance, and other sources of retirement income, thus helping participants to understand where they stand.

We offer advice on an individualized basis; over 73% of our portfolios are unique.

To talk not just about disclosure, but also about engaging participants, let me tell you about an actual participant, who we'll call Mary, who recently called one of our reps for a Retirement Checkup, a phone consultation with a Financial Engines Advisor focused on helping near-retirees update their Retirement Plan,. Mary is 58, makes about \$39,000 a year and is recently divorced. Mary told us she wanted \$30,000 in retirement income, which was about 70% of pre-retirement income. But her social security and 401(k) gave her a median retirement income forecast of only \$20,000. She was a saver outside the 401(k), and by considering these other retirement assets, her forecast increased to \$27,000. Our representative discussed working longer – just one year longer -- but our participant would have none of that. Mary was willing to save more – and raised her saving to 17%, from 10%. She realized she was eligible for part of her former spouse's pension, so taken together, her median retirement income forecast reached \$32,000. She'd expressed a fear of having to work until she was 85, and was now both better informed, and saving more.

Sally did not hold any target date funds, but we believe that a “best practices” plan design can include both target date funds and managed accounts. We see this in practice: 73% of our sponsors who use managed accounts also use target date funds.

Why is this? Different participants have different needs and preferences.

For example, we analyzed 429,000 participant portfolios, which we were not managing, and found that the range of risk preferences, as demonstrated by actual holdings, was much more narrow for the younger participant, and widened considerably as participant approached retirement. At age 25, the range of equity holdings, was 80-92% - a spread of 12 percentage points. At age 60, the range was 25% to 71% in equity holdings – a spread of 46%.

We've also done a case study of a large Fortune 500 plan, with 35,000 participants, and \$1 billion in plan assets, which rolled out managed accounts and target date funds at same time. The study was done 3 years after rollout, and found that the average age of target date fund users was 35, and the average age of managed accounts members was 45. This is consistent with the EBRI study, which found that target date funds were more often used by younger employees.

Participants have different approaches to their 401(k) – consistent with the above risk ranges and what we've heard today. These differences mean that disclosure is needed both for sponsors and participants, to get the right “fit”. Sponsors need better visibility into underlying holdings and glide path. The industry can do a better job of disclosure for participants around expenses, risk, and fit.

And we can go beyond disclosure, to participant engagement: to truly engage the participant, and actually show them in the context of their own circumstances – whether they are holding target date funds or other assets -- where they stand today, the probabilities of reaching a retirement goal, and how to improve the situation. For example, when we've done a retirement checkup by phone, as a pilot, where 100 participants had before and after data, less than 25% had an even likelihood of meeting their retirement income goal before updating their retirement strategy, but close to 60% were able to bring their forecasted income to meet their goal, with increased savings, delaying retirement, or a change to risk preference or other updates.

We should arm participants to make decisions about relative amounts of equity in their defined contribution account, in the context of their savings preferences, desired retirement age, and when they will need income from the 401(k)