

OVERVIEW

Competition is intense in the asset management arena, with some companies providing complete asset management services while others offer specific products. One major aspect of asset management is planning for retirement. Retirement plans are generally administered by a bank, life insurance company, mutual fund, brokerage firm or pension fund manager. Because payouts are relatively predictable, pension funds invest primarily in long-term securities. They are among the largest investors in the stock market. Pension plan assets made up 17 percent of total financial services assets in 2005.

TOP TEN ASSET MANAGER DEALS ANNOUNCED IN THE UNITED STATES, 2005¹ (\$ millions)

Rank	Buyer	Target	Seller ²	Deal value ³
1	Legg Mason Inc.	Asset management business	Citigroup Inc.	\$3,700.0
2	Legg Mason Inc.	Permal Group Ltd.	Sequana Capital	930.0
3	U.S. Bancorp	Corporate trust and institutional custody business	Wachovia Corp.	800.0
4	Affiliated Managers Group Inc.	First Asset Management Inc.	Investor group	250.0
5	Bank of Ireland plc	Guggenheim Alternative Asset Management LLC	Guggenheim Partners LLC	184.0
6	Jones Lang LaSalle Inc.	Spaulding & Slye Advisors, LP		150.0
7	Fortis Bank SA/NV	Dryden Wealth Management Ltd.	Prudential Financial Inc.	144.0
8	Sanders Morris Harris Group Inc.	Edelman Financial Center Inc.		128.7
9	Management group	Cadence Capital Management LLC	Allianz Aktiengesellschaft Holding	77.0
10	Brascan Corp.	Hyperion Capital Management Inc.	Hyperion Partners LP	50.0
	Nuveen Investments Inc.	Santa Barbara Asset Management Inc.		50.0

¹At least one of the companies involved is a U.S.-domiciled company. List does not include terminated deals.

²If different from the target.

³At announcement.

Source: SNL Financial LC.

RETIREMENT ASSETS

ASSETS OF PRIVATE PENSION FUNDS BY TYPE OF ASSET, 2001-2005¹

(\$ billions, end of year)

	2001	2002	2003	2004	2005
Total financial assets	\$3,916.3	\$3,309.3	\$4,027.4	\$4,472.9	\$4,613.3
Checkable deposits and currency	9.9	10.2	10.4	10.5	10.7
Time and savings deposits	143.5	148.0	150.4	152.4	156.7
Money market fund shares	80.5	82.8	84.4	85.1	87.0
Security repurchase agreements ²	31.6	32.5	33.1	33.4	34.2
Credit market instruments	637.3	663.0	677.2	712.1	734.9
Open market paper	37.2	39.8	37.7	38.9	40.9
U.S. government securities	295.2	305.5	313.8	331.9	342.1
Treasury	80.5	85.1	86.5	91.4	94.2
Agency- and GSE ³ -backed securities	214.7	220.4	227.3	240.5	247.9
Corporate and foreign bonds	294.6	307.3	315.5	331.3	342.0
Mortgages	10.4	10.4	10.3	10.0	9.8
Corporate equities	1,562.1	1,096.7	1,491.9	1,691.2	1,726.1
Mutual fund shares	862.1	752.0	993.7	1,173.7	1,252.0
Miscellaneous assets	589.4	523.9	586.3	614.4	611.5
Unallocated insurance contracts ⁴	339.7	270.7	333.7	369.3	377.7
Contributions receivable	121.9	122.0	120.6	118.2	114.9
Other	127.8	131.2	132.0	126.9	119.0
Pension fund reserves (liabilities) ⁵	3,964.0	3,357.0	4,074.5	4,519.0	4,657.9

¹Private defined benefit plans and defined contribution plans (including 401(k) type plans), and the Federal Employees Retirement System Thrift Savings Plan.

²Short-term agreements to sell and repurchase government securities by a specified date at a set price.

³Government-sponsored enterprise.

⁴Assets of private pension plans held at life insurance companies (e.g., variable annuities).

⁵Equal to the value of tangible and financial assets. These liabilities are assets of the household sector.

Source: Board of Governors of the Federal Reserve System.

**ASSETS OF STATE AND LOCAL GOVERNMENT EMPLOYEE RETIREMENT FUNDS
BY TYPE OF ASSET, 2001-2005**

(\$ billions, end of year)

	2001	2002	2003	2004	2005
Total financial assets	\$2,206.6	\$1,930.5	\$2,344.0	\$2,572.0	\$2,721.7
Checkable deposits and currency	11.4	12.9	17.2	17.6	22.1
Time and savings deposits	1.8	1.7	1.4	1.8	1.9
Money market fund shares	15.4	15.5	12.6	9.6	9.5
Security repurchase agreements ¹	34.0	27.1	22.0	16.7	21.0
Credit market instruments	689.4	638.7	649.9	677.1	666.8
Open market paper	51.3	48.0	39.1	29.6	29.1
U.S. Government securities	335.8	351.5	396.2	422.9	416.1
Treasury	155.1	158.9	147.9	130.4	119.8
Agency- and GSE ² -backed securities	180.7	192.6	248.3	292.5	296.3
Municipal securities	1.7	0.9	1.0	1.7	1.6
Corporate and foreign bonds	279.7	217.3	193.2	203.4	200.4
Mortgages	21.0	21.1	20.4	19.5	19.6
Corporate equities	1,260.4	1,056.8	1,421.5	1,607.0	1,752.1
Mutual fund shares	184.3	167.4	208.0	230.5	241.3
Miscellaneous assets	10.0	10.4	11.3	11.8	7.1
Pension fund reserves (liabilities) ³	2,253.5	1,980.0	2,393.9	2,620.0	2,765.5

¹Short-term agreements to sell and repurchase government securities by a specified date at a set price.

²Government-sponsored enterprise.

³Equal to the value of tangible and financial assets. These liabilities are assets of the household sector.

Source: Board of Governors of the Federal Reserve System.

RETIREMENT ASSETS

TYPES OF RETIREMENT PLANS

There are two basic types of pension funds: defined benefit and defined contribution plans. In a defined benefit plan, the income the employee receives in retirement is guaranteed, based on predetermined benefits formulas. A person's earnings and number of years with the company may affect the benefits received. In a defined contribution plan, a type of savings plan in which taxes on earnings are deferred until funds are withdrawn, the amount of retirement income depends on the contributions made and the earnings generated by the securities purchased. The employer generally matches the employee contribution up to a certain level and the employee selects investments from among the options the employer's plan offers.

The Individual Retirement Account (IRA) is a tax-deductible savings plan for those who are self-employed, or whose earnings are below a certain level or whose employers do not offer retirement plans. Other types of retirement funds include profit-sharing and Keogh plans for the self-employed and employees of small businesses. Some people not in these categories may make limited IRA contributions on a tax-deferred basis. The Roth IRA, a special kind of retirement account created in 1997, may offer greater tax benefits to certain individuals.

DEFINED BENEFIT AND DEFINED CONTRIBUTION PLANS, 1990-2005¹

(Percent)

Percent of all workers participating	1990-1991	1999	2000	2003	2004	2005
Defined benefit pension plans	35%	21%	19%	20%	21%	21%
Defined contribution plans	34	36	36	40	42	42

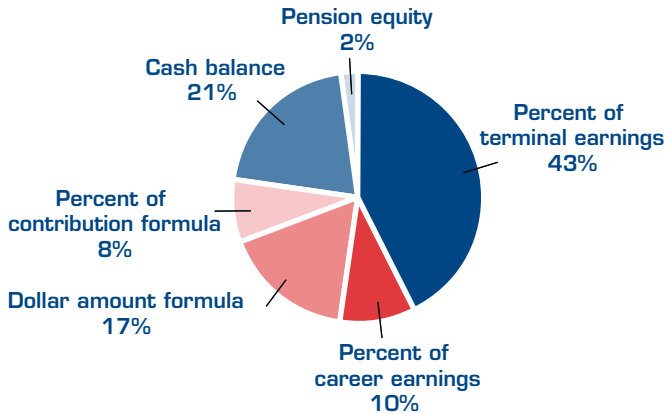
¹All private industry.

Source: U.S. Bureau of Labor Statistics.

DEFINED BENEFIT PLAN FORMULAS

Retirement benefits under defined pension plans vary, depending on the formula used to determine the benefits. Typically, benefits are based on a percentage of the participant's "terminal earnings," i.e., earnings at retirement. Several other options have been developed (see Appendix, page 189).

DEFINED BENEFIT PLANS: PRIMARY FORMULA, ALL EMPLOYEES, 2003¹



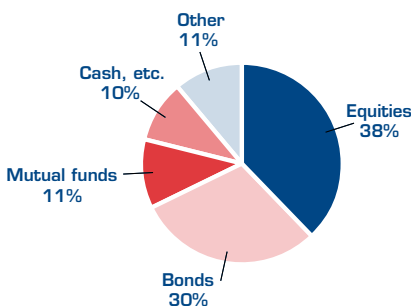
- Among those workers covered by a defined benefit plan, the share of cash balance plans rose from 4 percent in 1997 to 21 percent in 2003.
- 28 percent of workers in service-producing industries covered by a defined benefit plan were in cash balance plans, compared with 8 percent of workers in goods-producing industries.

¹All private industry. Does not add to 100 percent due to rounding.

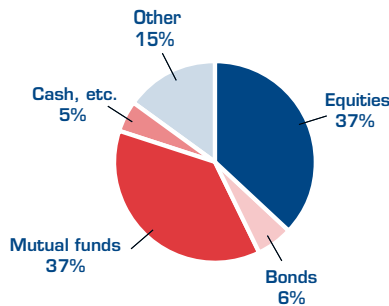
Source: National Compensation Survey, 2003, U.S. Bureau of Labor Statistics.

RETIREMENT FUNDS ASSET MIX, 2005

Private Defined Benefit Plans



Private Defined Contribution Plans



- In defined benefit plans, the share of investments in bonds rose from 2004 to 2005, while the share of investments in equities decreased.

Source: Securities Industry Association.

RETIREMENT ASSETS

INVESTMENT MIX OF PRIVATE DEFINED BENEFIT PLAN ASSETS, 2001-2005
(\$ billions)

Year	Equity	Bonds	Mutual funds	Cash items	Other assets	Total assets
2001	\$724	\$459	\$149	\$162	\$192	\$1,686
2002	457	475	131	167	180	1,409
2003	643	488	185	169	195	1,680
2004	720	513	206	172	200	1,811
2005	685	524	194	176	190	1,769

Source: Securities Industry Association.

INVESTMENT MIX OF PRIVATE DEFINED CONTRIBUTION PLAN ASSETS, 2001-2005
(\$ billions)

Year	Equity	Bonds	Mutual funds	Cash items	Other assets	Total assets
2001	\$838	\$141	\$714	\$141	\$397	\$2,231
2002	640	148	621	146	344	1,900
2003	849	152	809	147	392	2,347
2004	971	160	968	149	414	2,662
2005	1,041	170	1,058	153	422	2,844

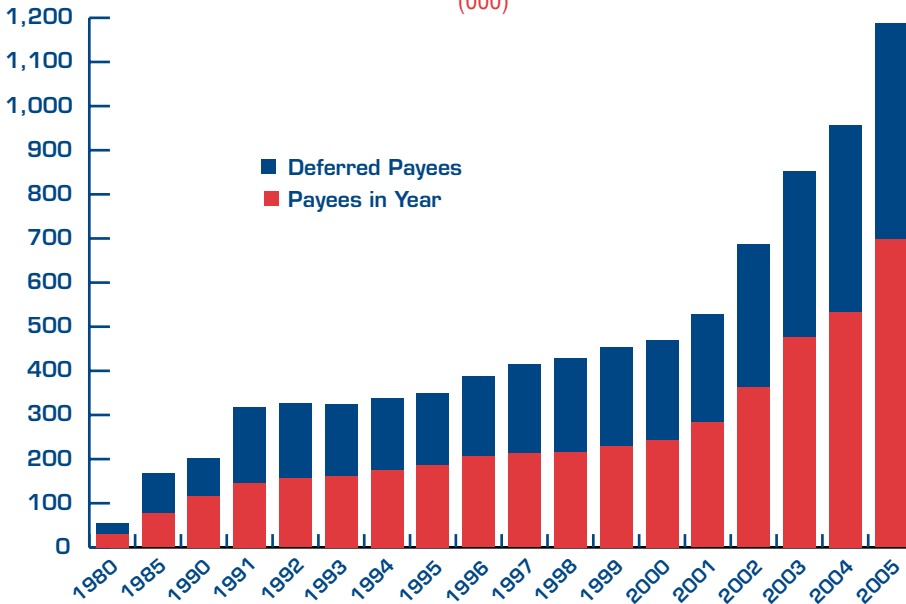
Source: Securities Industry Association.

PENSION BENEFIT GUARANTY CORPORATION

The Pension Benefit Guaranty Corporation (PBGC), a federal corporation created by the Employee Retirement Income Security Act of 1974, protects the pensions of over 44 million workers in about 31,000 private defined benefit plans through two separate insurance programs: a single-employer plan termination insurance program and a multi-employer plan. In 2005 Congress passed landmark pension reform legislation to close shortfalls in employers' funding of defined benefit pension plans. The act requires employers to fully fund their plans in seven years, but gives some airlines in bankruptcy proceedings an extra 10 years to meet their obligations. The law also removes legal barriers to some cash balance plans and is, together with a recent federal court ruling concerning IBM, expected to spur the growth of such plans. The August 2006 ruling held that IBM's cash balance plan did not discriminate against older workers.

PARTICIPANTS AND BENEFICIARIES RECEIVING PENSION BENEFIT GUARANTY CORPORATION PAYMENTS, SINGLE-EMPLOYER PROGRAM, 1980-2005

(000)



- More than 80 percent of all claims against the PBGC have been recorded since 2000. Claims from the airlines and steel industries accounted for 75 percent of the claims received from 2000 to 2005.
- In 2005 the PBGC paid \$3.7 billion in benefits to 698,000 defined benefit plan participants.

Source: Pension Benefit Guaranty Corporation.

IRA MARKET SHARES BY HOLDER, 2001-2005

(\$ billions, end of year)

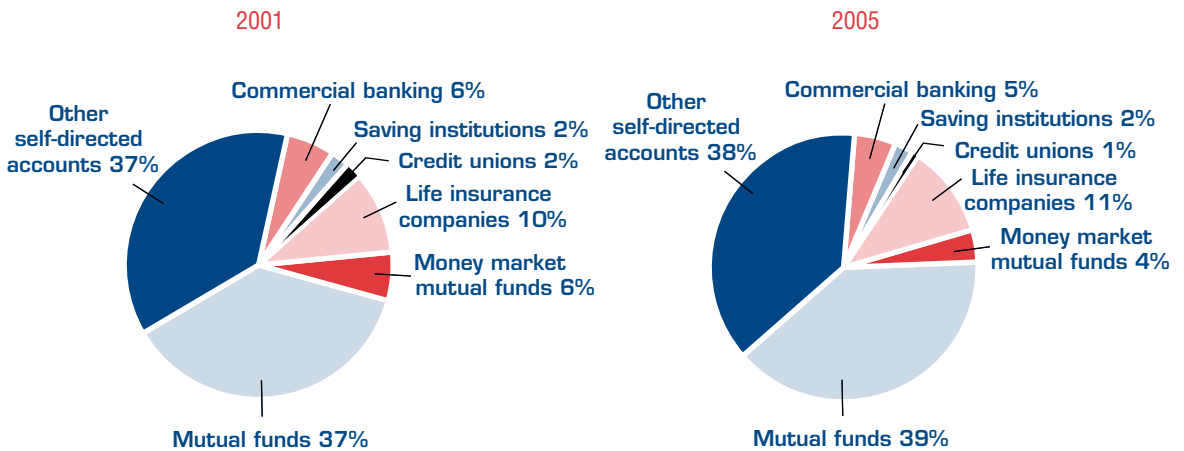
By holder	2001	2002	2003	2004	2005
Commercial banking	\$160.1	\$165.6	\$166.0	\$168.0	\$170.5
Savings institutions	54.6	53.8	55.1	53.7	53.8
Credit unions	39.9	43.3	46.8	47.7	49.3
Life insurance companies	251.0	308.3	338.4	376.0	407.0
Money market mutual funds	172.0	190.0	171.0	153.0	162.0
Mutual funds	961.3	822.0	1,095.0	1,279.0	1,432.0
Other self-directed accounts	980.1	950.0	1,118.6	1,258.7	1,392.4
Total	2,619.0	2,533.0	2,991.0	3,336.0	3,667.0

- In 2005 most people's IRAs were held by mutual funds, followed by "other self-directed accounts," generally brokerage accounts in which the investor has considerable control over the direction of investments.

Source: Board of Governors of the Federal Reserve System.

RETIREMENT ASSETS

IRA MARKET SHARES BY HOLDER, 2001 AND 2005



Source: Board of Governors of the Federal Reserve System.

401(K) ROLLOVER RATES

Workers who leave their jobs can preserve their 401(k) assets by rolling over the funds into a qualified individual retirement account (IRA) or by keeping them in the 401(k) plan. A survey by Hewitt Associates found that in 2004, 55 percent of workers either maintained their balances in the original plan or rolled the funds over into an IRA; 45 percent took a cash distribution upon termination of employment.

401(K) PARTICIPANT CHOICES AT TERMINATION BY AGE, 2004

(Percent)

Participant age	Leaving money in plan	Rollover	Taking cash distribution
20 to 29 years old	19.5%	14.7%	65.8%
30 to 39 years old	29.6	21.8	48.6
40 to 49 years old	33.3	24.5	42.2
50 to 59 years old	39.5	29.8	30.7
60 to 65 years old	39.2	32.2	28.6
65 years old and over	44.2	26.5	29.4

Source: Hewitt Associates LLC.

ASSETS IN 401(K) PLANS, 1996-2005
(\$ billions)

Year	Mutual fund 401(k) plan assets	Other 401(k) plan assets	Total
1996	\$351	\$710	\$1,061
1997	480	784	1,264
1998	619	922	1,541
1999	813	977	1,790
2000	819	906	1,725
2001	798	884	1,682
2002	712	868	1,580 ¹
2003	927	1,050 ²	1,978 ²
2004	1,096	1,171 ²	2,267 ²
2005	1,238	1,205 ²	2,443 ²

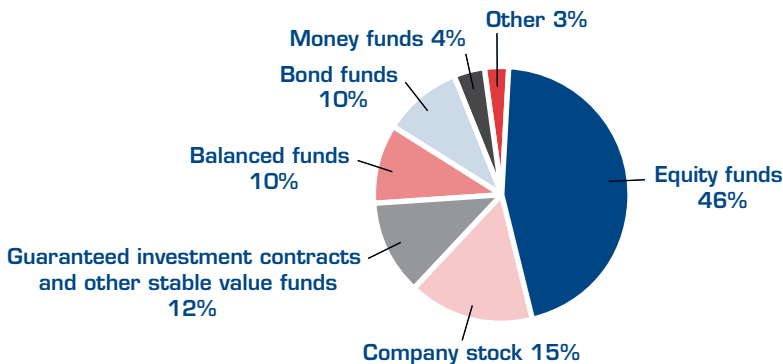
¹Preliminary data not finalized by the U.S. Department of Labor.

²Estimated by the Investment Company Institute.

Note: Components may not add to totals due to rounding.

Source: Investment Company Institute.

AVERAGE ASSET ALLOCATION FOR ALL 401(K) PLAN BALANCES, 2004



Note: Funds include mutual funds and other pooled investments.

Source: Investment Company Institute.

ANNUITIES

SALES OF FIXED AND VARIABLE ANNUITIES

Fixed annuities guarantee that a specific sum of money will be paid each period, generally on a monthly basis, regardless of fluctuations in the value of the annuity issuer's underlying investments. Variable annuity payments are based on the portfolio of stocks in which the issuer invests; therefore the monthly payment may fluctuate, depending on whether the value of the investments goes up or down. (See Chapter 5, page 89.)

The equity index annuity is a hybrid annuity product. A specified rate of interest guarantees a fixed minimum rate of interest as with traditional fixed annuities. At the same time, additional interest may be credited to policy values based on positive changes, if any, in an established index such as the S&P 500. Policies are sold by licensed insurance agents and regulated by state insurance departments. Sales of index annuities reached a record \$27.3 billion in 2005, up 64 percent from \$23 billion in 2004, according to the Advantage Compendium.

INDIVIDUAL ANNUITY CONSIDERATIONS, 2001-2005¹
(\$ billions)

- Fixed annuity sales fell 10.2 percent in 2005.
- Total annuity sales fell 1.9 percent in 2005, compared with an increase of 0.9 percent in 2004.

Year	Variable	Fixed	Total
2001	\$111.0	\$74.3	\$185.3
2002	116.6	103.3	219.9
2003	129.4	89.4	218.8
2004	132.9	87.9	220.8
2005	137.6	78.9	216.5

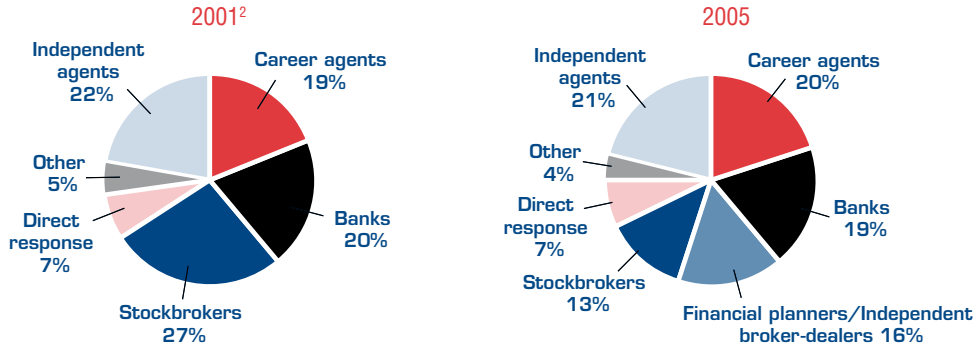
¹Considerations are LIMRA's estimates of the total annuity sales market.

Source: LIMRA International.

ANNUITY DISTRIBUTION SYSTEMS

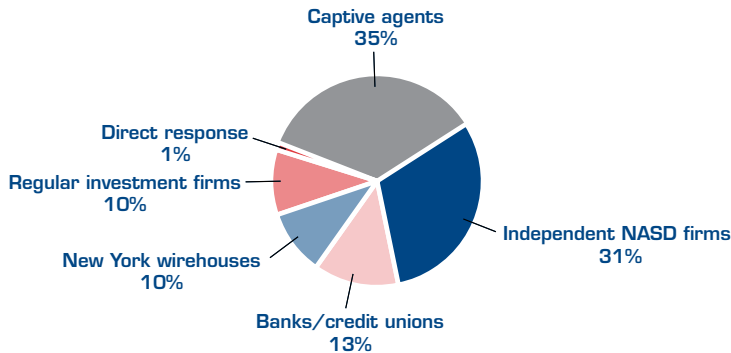
Insurance agents, including career agents, who sell the products of a single life insurance company, and independent agents, who represent several insurers, account for over 40 percent of annuity sales. State and federal regulators require sellers of variable annuities, which are similar to stock market-based investments, to register with NASD and the Securities and Exchange Commission.

SALES OF INDIVIDUAL ANNUITIES BY DISTRIBUTION CHANNELS, 2001 AND 2005¹



¹Preliminary. ²Financial planner sales included with stockbrokers prior to 2003. Source: LIMRA International.

VARIABLE ANNUITY TOTAL SALES BY DISTRIBUTION CHANNEL, 2005¹



¹As of December 31, 2005. Source: NAVA and Morningstar, Inc.

NET ASSETS OF VARIABLE ANNUITIES, 1996-2005

(\$ billions)



Source: NAVA and Morningstar, Inc.

MUTUAL FUNDS

MUTUAL FUND RETIREMENT ASSETS, 1996-2005
(\$ billions)

Year	Employer-sponsored accounts ¹	IRAs	Total retirement
1996	\$584	\$587	\$1,171
1997	774	770	1,544
1998	985	969	1,954
1999	1,282	1,263	2,545
2000	1,256	1,236	2,492
2001	1,188	1,173	2,360
2002	1,053	1,052	2,105
2003	1,363	1,319	2,682
2004	1,588	1,497	3,084
2005	1,776 ²	1,668 ²	3,444 ²

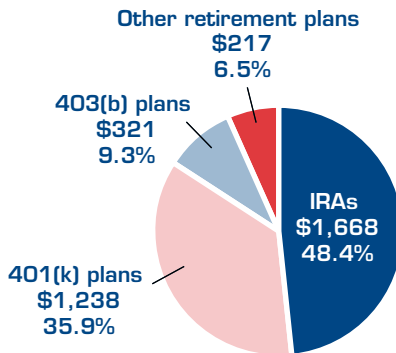
¹Includes 401(k) plans, 403(b) plans, 457 plans, Keoghs and other defined contribution plans without 401(k) features; does not include defined benefit plan mutual fund assets.

²Preliminary.

Note: Components may not add to totals due to rounding.

Source: Investment Company Institute.

MUTUAL FUND RETIREMENT ASSETS BY TYPE OF PLAN, 2005¹
(\$ billions)



- Of the total \$3.4 trillion in mutual fund assets held in retirement plans, 69 percent were invested in equity funds, including 58 percent in domestic funds and 11 percent in foreign funds.

¹Preliminary.

Source: Investment Company Institute.