



BLACKROCK®

California Secure Choice Symposium

**Chip Castille, Head of US Retirement Group
BlackRock®**

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BlackRock: Singular focus on clients' needs

We aspire to be the most respected investment and risk manager in the world for clients

Firm Objective

- ▶ Understand the outcome each client is looking to achieve
- ▶ Recognize the core of any investment solution is performance
- ▶ Protect our clients' interests through investment in risk management, analytics, and systems

DC Platform

- ▶ Industry's largest investment manager and DCIO solutions provider
- ▶ Only provider offering index, enhanced and active solutions
- ▶ \$4.3 trillion in AUM, \$527 billion in DC assets, \$341 billion in multi-asset solutions & extensive asset allocation expertise

Research & Risk Management

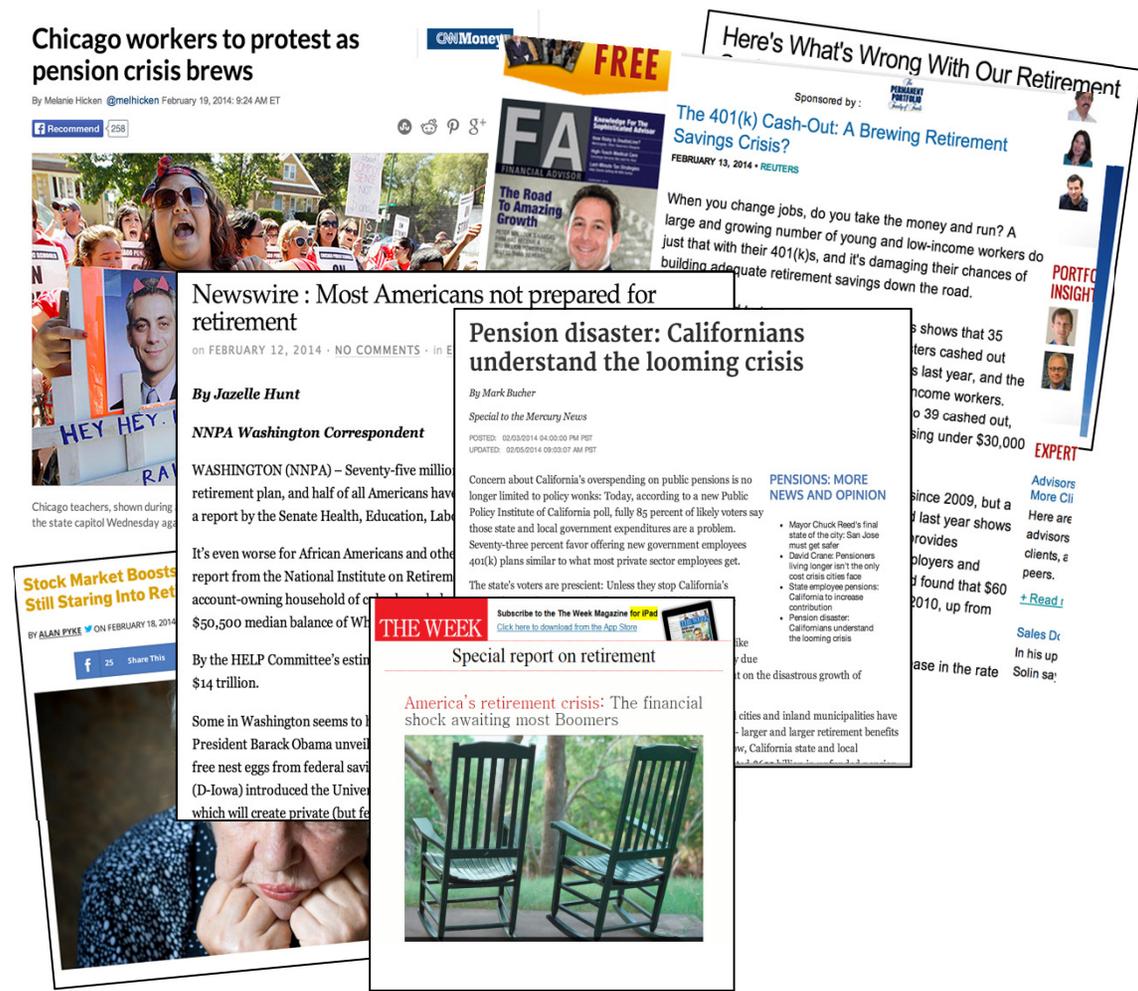
- ▶ Dedicated Research Staff
- ▶ Investment and behavioral research informs inputs for new product development and evolution of existing solutions
- ▶ \$15 trillion risk management platform supported by proprietary analytical toolkit

DC Evolution

- ▶ Pioneered Target Date Fund (1993) and Index (1971) investing
- ▶ Adapt solutions as plan and participant preferences evolve
- ▶ Full customization capabilities

Source: BlackRock, 31 December 2013

Is there a retirement crisis?...

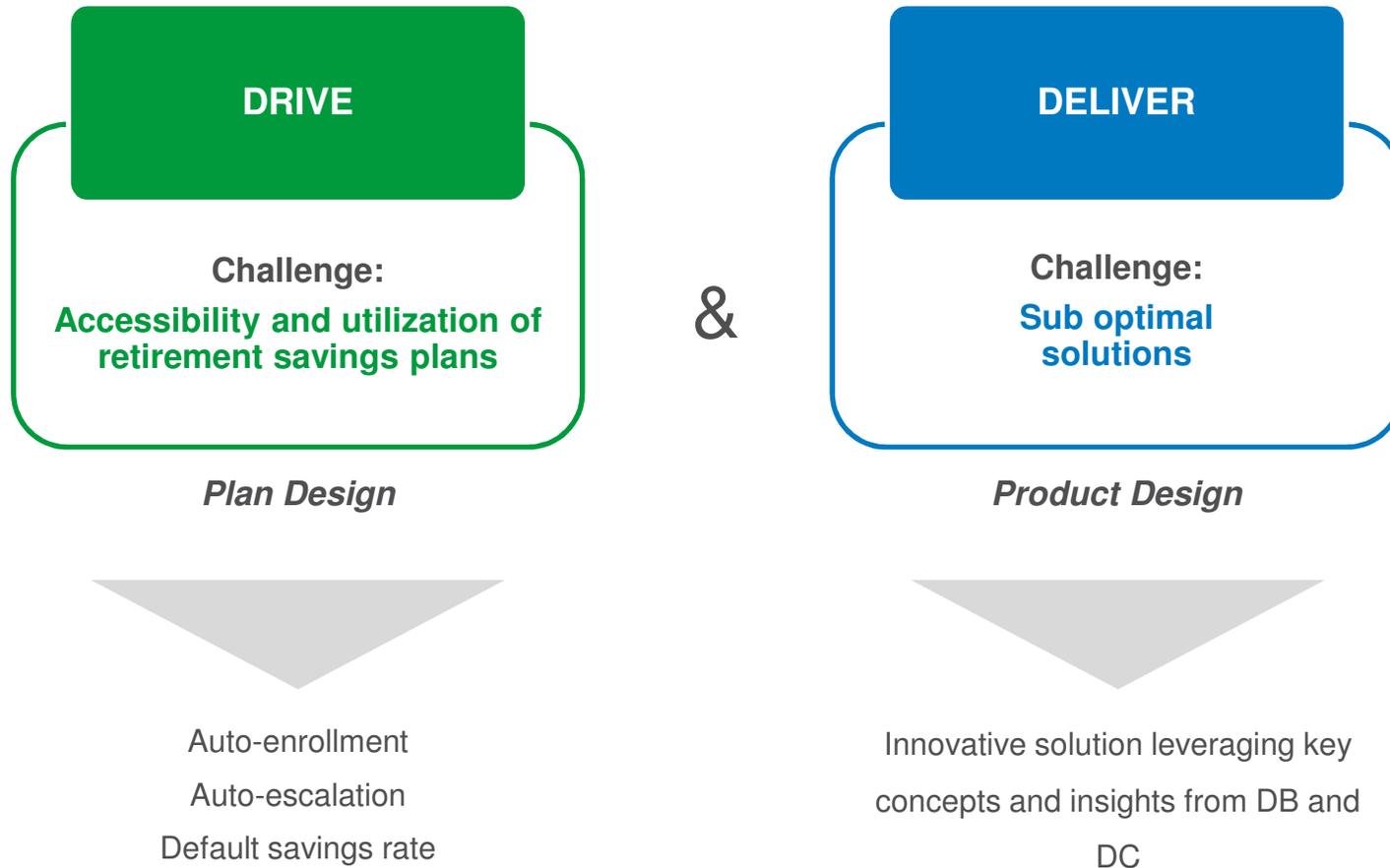


- ▶ Over 6.3 million California workers, 75% of whom earn less than \$50,000 per year, do not have access to retirement savings opportunities through their jobs¹
- ▶ Nearly 50% of middle-income California workers will retire at or near poverty¹
- ▶ Only 13% of American workers are very confident they will have enough to retire²
- ▶ Just 2% of workers name saving for retirement the most important financial issue in their lives²
- ▶ 35% of Americans over the age of 65 rely almost entirely on Social Security payments²
- ▶ By 2035, it is projected that there will be approximately two U.S. workers for each retiree³

1. California Senate Bill No. 1234, September 2012
 2. Employee Benefit Research institute, 2013 Retirement Confidence Survey: Perceived Savings Needs Outpace Reality for Many, March 2013
 3. U.S. Social Security Administration and OASDI Trustee Report, May 2012
 Screen shots are for illustrative purposes only.

...Yes there is, but there are solutions

Focus on employees / participants:



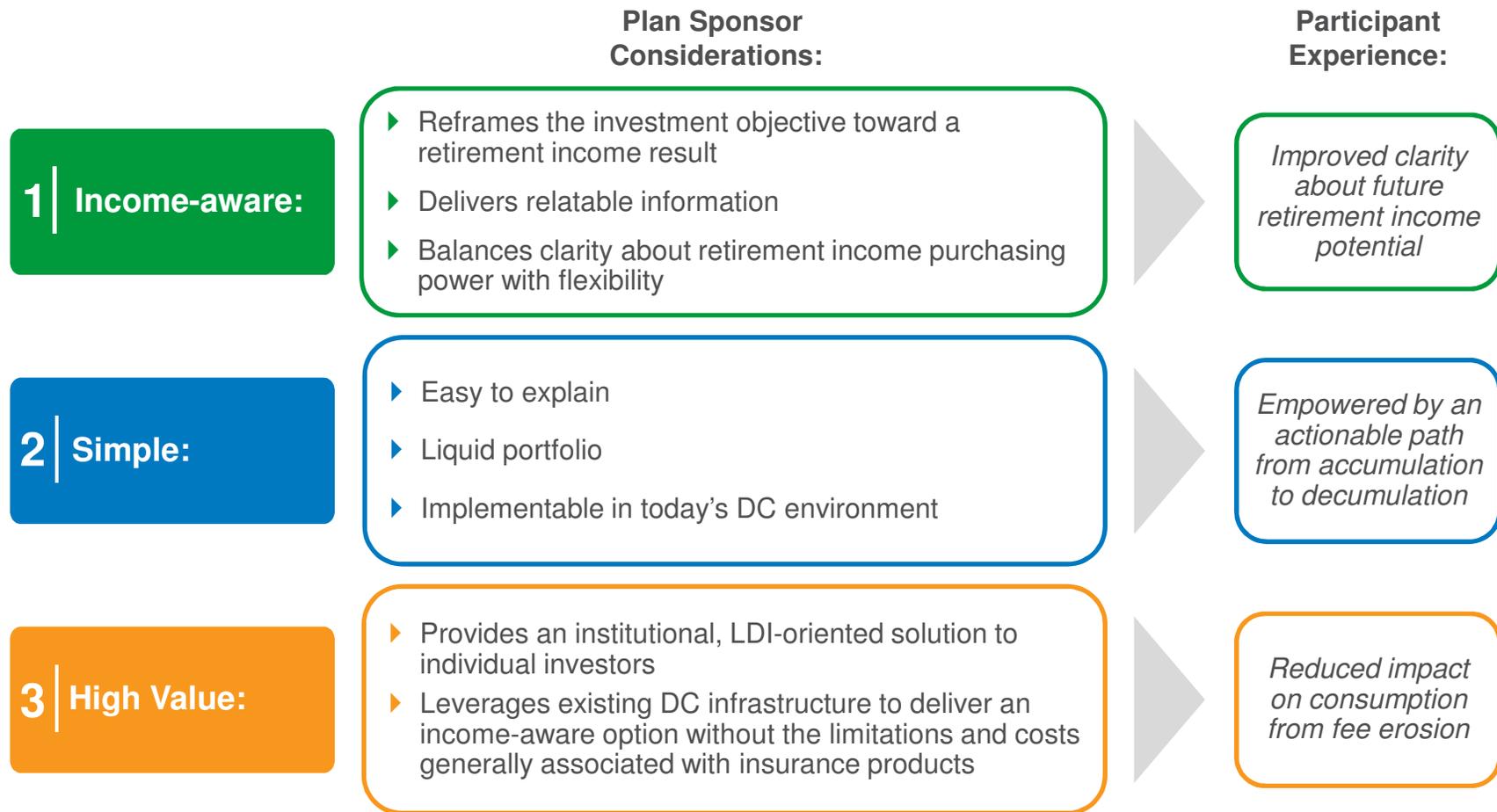
The Conceptual Approach

Provide employees / participants with a retirement savings solution that:

- ▶ Combines most desirable attributes of Defined Benefit and Defined Contribution
 - Professional asset allocation and management
 - Power of “pooling of lives”
 - Portability, flexibility and liquidity
- ▶ Incorporates sound investment theory and innovative ideas
- ▶ Recognizes unique aspects of providing retirement savings solutions to participants
- ▶ Addresses participant behavioral preferences and biases
 - Changing needs over a participant’s lifecycle (Accumulation, Pre-Retirement, Retirement)

	Accumulation	Pre-Retirement (De-risking)	Retirement
Funding Method	<ul style="list-style-type: none"> ▶ Employee contributes a fixed % of income ▶ Funds managed by institutional asset manager(s) 		<ul style="list-style-type: none"> ▶ Retiree no longer contributes funds
Investment Strategy	<ul style="list-style-type: none"> ▶ Portfolio invested for growth; most aggressive investment phase ▶ Investment strategy shaped by ultimate objective of principal protection, seeking to manage drawdown risks 	<ul style="list-style-type: none"> ▶ Portfolio objective shifts toward principal protection ▶ Growth portfolio is reduced as employee approaches retirement ▶ Annuity cost hedging program 	<ul style="list-style-type: none"> ▶ Investments split between traditional and non-traditional investments (such as annuity contracts, longevity hedges and potentially life insurance)
Withdrawal Policy	<ul style="list-style-type: none"> ▶ Withdrawals can be made in the event of: <ul style="list-style-type: none"> • Employee death or disability • Employee moving out of state 		<ul style="list-style-type: none"> ▶ Lifetime income generated by annuities and investments ▶ Some longevity risk passed on to retiree ▶ Could incorporate a death benefit for retiree

Translating the Conceptual to a Pragmatic Approach: Characteristics of an effective retirement savings solution



What are the CoRI™ Retirement Indexes?

BlackRock's CoRI™ Retirement Indexes ("CoRI Indexes") are a suite of U.S. bond indexes that track the estimated cost of \$1 of future, cost of living-adjusted annual lifetime income starting when an individual turns 65.

So what does this mean?

By observing the CoRI Index that corresponds to the year one reaches 65, an investor will have a clearer understanding of how today's retirement savings could translate into estimated future lifetime income.

How Old Do You Turn in 2014?	Your CoRI Index	Ticker	Your CoRI Index Level ¹
65	CoRI Index 2014	^CORI2014	\$18.81
64	CoRI Index 2015	^CORI2015	\$18.04
63	CoRI Index 2016	^CORI2016	\$17.28
62	CoRI Index 2017	^CORI2017	\$16.53
61	CoRI Index 2018	^CORI2018	\$15.80
60	CoRI Index 2019	^CORI2019	\$15.08
59	CoRI Index 2020	^CORI2020	\$14.38
58	CoRI Index 2021	^CORI2021	\$13.73
57	CoRI Index 2022	^CORI2022	\$13.11
56	CoRI Index 2023	^CORI2023	\$12.47

Example: Understanding a CoRI Index level

BlackRock CoRI Index 2019
(NYSE: ^CORI2019)



A 60 year old investor would need approximately \$15.08 saved today for \$1 of cost of living-adjusted, annual lifetime income beginning at age 65.

For illustrative purposes only.

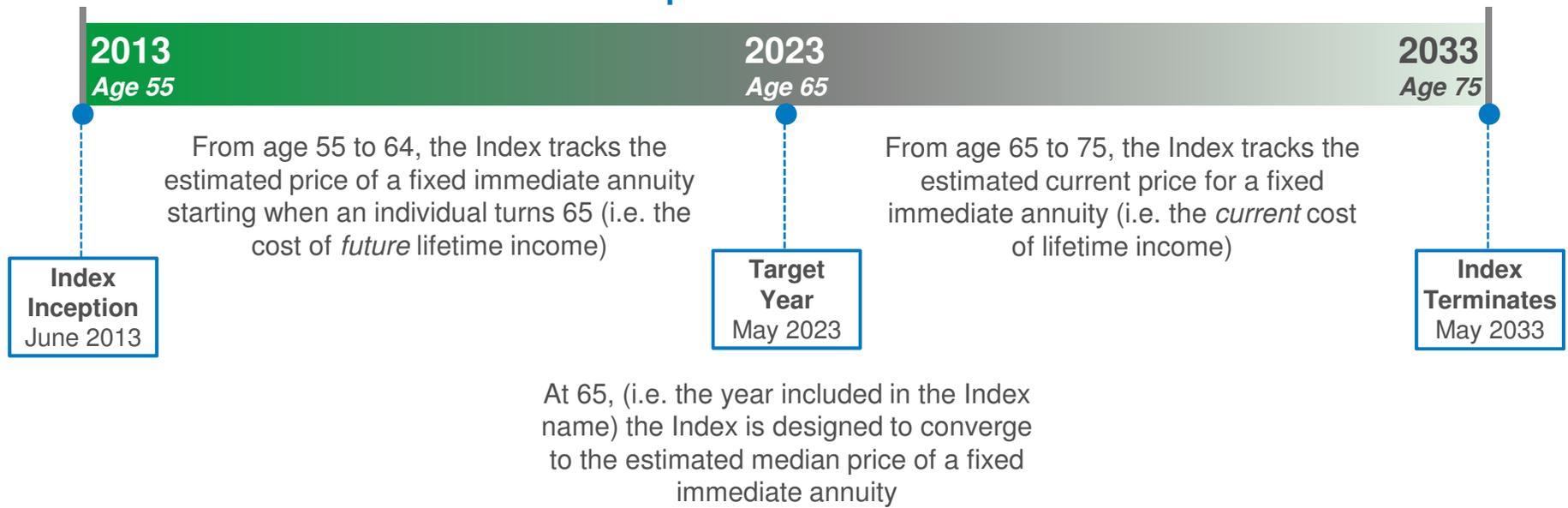
1. Index levels are as of 31 December 2013 (Source: BlackRock). Past performance is not indicative of future results. Indexes are unmanaged and one cannot invest directly in an index.
2. Index level reflects the CoRI Index 2019 level as of 31 December 2013 (Source: BlackRock). Past performance is not indicative of future results. Indexes are unmanaged and one cannot invest directly in an index.

Lifecycle of a CoRI™ Index

The CoRI Indexes are designed to help individuals plan for a target amount of income at retirement, by quantifying one of the biggest variables faced by pre-retirees: **What is the fair cost of life-contingent income?**

- ▶ Currently there are 10 indexes available for individuals from age 55 – 64 (CoRI Index 2023 – 2014).
- ▶ Each Index will be available until age 75, i.e. 10 years beyond the year included in the Index name, and BlackRock will launch a new Index for 55-year olds each year.
- ▶ Accordingly, the suite will be offered over a 20-year horizon, offering investors and their advisors a unique way to help understand and address the longevity challenge.

Lifecycle of a CoRI Index Example: CoRI Index 2023



For illustrative purposes only.

The Objective

Experience consistent with participants' preferences for stable retirement spending

- ▶ **Target Date Funds:** Typically seek to provide age-appropriate asset allocation by reducing exposure to market volatility as the participant ages
- ▶ **LifePath strategies:** Seek to consider not only market risk, but inflation and longevity risks as well
- ▶ **The LifePath CoRI™ strategy:** Would seek to explicitly reduce market volatility and volatility in the portfolio's lifetime retirement income potential by incorporating a retirement income tracking asset class that is benchmarked to the CoRI Indexes

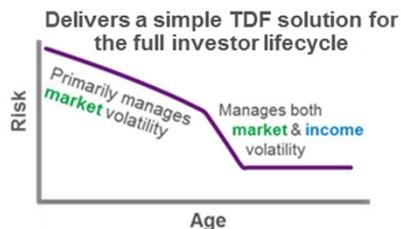
What risks can a target date fund manage?

1	Market Risk	2	Longevity Risk	3	Inflation Risk	4	Behavioral Risk
	Broad markets underperform		Participant outlives savings		Rising prices erode purchasing power		Participants struggle to make fundamental decisions that impact their retirement outcomes
	<ul style="list-style-type: none"> ▶ Traditionally hedged with Fixed Income ▶ LifePath CoRI's retirement income tracking asset class would help moderate the effects of equity market volatility on a portion of the portfolio's income purchasing power 		<ul style="list-style-type: none"> ▶ Traditionally hedged with Equity/Equity-like securities ▶ LifePath CoRI's retirement income tracking asset class would account for mortality expectations, providing a more explicit hedge for longevity risk 		<ul style="list-style-type: none"> ▶ Traditionally hedged with real assets and cost-of-living adjustment (CoLA) ▶ LifePath CoRI's retirement income tracking asset class would include a fixed, annual 2.5% CoLA 		<ul style="list-style-type: none"> ▶ Traditionally managed through plan and product design ▶ LifePath CoRI would combine the levers of savings, asset allocation, and tracking the cost of retirement income for participants

The LifePath CoRI strategy is hypothetical and conceptual at this time. The information contained in this presentation is provided for illustrative purposes only. The LifePath CoRI strategy, including any allocation to a retirement income tracking asset class, would not be an insurance product or include a guarantee of any kind.

What is LifePath CoRI™?

The LifePath CoRI strategy concept is the latest evolution in BlackRock's pioneering target date fund suite – an institutional TDF of choice¹, with a 20-year track record across a broad range of market cycles.



Focus shifts to protecting future income purchasing power as participants approach retirement



Balances income clarity with flexibility at retirement



■ CoRI asset class ■ U.S. Large / Mid Cap Equities ■ U.S. Small Cap Equities ■ International Equities ■ Commodities

INVEST

- ▶ Access to automatic asset allocation via efficient passive investment vehicles
- ▶ Participant chooses the fund that most closely approximates the year the participant turns 65

FIND

- ▶ During Pre-Retirement, (around age 55), LifePath CoRI would allocate to a bond-based retirement income tracking asset class
- ▶ Participant uses the CoRI tool to learn how much his or her retirement savings may generate in estimated retirement income

TRACK

- ▶ Approaching 65, income translations should become more stable and increase as:
 - ▶ allocation to retirement income tracking asset class (annuity beta) increases
 - ▶ balances increase from contributions/market growth
- ▶ Participant checks his or her CoRI calculation regularly

CHOOSE

- ▶ Offers liquidity and flexibility to make personal decisions about how to secure income when ready for retirement
- ▶ Leverage recordkeeper resources to compare annuity options or remain invested to implement a drawdown strategy

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1. As of 30 September 2013, 24% of Fortune 100 have LifePath as QDIA (Source: BlackRock)

Summary

A unique, comprehensive retirement solution focused on income can help achieve the objective of the California Secure Choice Program

1 | Is an income-aware solution suited for today's market.

2 | Is simple.

3 | Delivers high value.

- ▶ ***Provides retirement income-aware option to participants without the limitations, costs and fiduciary risks*** generally associated with in-plan DC retirement income solutions currently available
- ▶ ***Delivered automatically through familiar target date fund structure***, providing a more DB-like experience while preserving features of a DC plan
- ▶ ***Combines flexibility, liquidity, and transparency***
- ▶ ***Positions portfolio for purchase of a lifetime income benefit*** but empowers the participant to make that choice:
 - Flexibility to decide if, when, and how much to annuitize
 - Flexibility to choose from multiple insurers
 - Purchase happens outside of the plan

Important Information

The CoRI Retirement Indexes commenced ongoing calculation on June 28, 2013. The CoRI Retirement Indexes are maintained by BlackRock Index Services, LLC (the "Affiliated Index Provider"), a subsidiary of BlackRock, Inc., that designs, sponsors and publishes indices for use in portfolio benchmarking and portfolio management. The CoRI Retirement Indexes, allocations and data are subject to change.

This information should not be relied upon as investment advice, research, or a recommendation by BlackRock regarding (i) the use or suitability of the indexes or (ii) any security in particular.

The CoRI Retirement indexes do not guarantee future income or protect against loss of principal. There can be no assurance that an investment strategy based on the CoRI Retirement Indexes will be successful. Index returns do not reflect any management fees, transaction costs or expenses. Indexes are unmanaged and one cannot invest directly in an index.

Investing involves risk, including possible loss of principal.

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