

# Case 3: Retirement Plan (I of VI)

## Bain, Round 1

### Problem statement narrative

**(GIVE CANDIDATE HANDOUT, WHICH STATES THE BELOW FACTS)**

The client is a large international asset management firm, FinCo, looking to enter the market for retirement plans.

FinCo is trying to decide whether to provide IRAs or Defined Contribution plans.

Today both markets are the same size (~ \$3 Trillion), and both generate the same fees.

FinCo is interested in knowing the five year growth outlook for each of these markets

### Guidance for interviewer and information provided upon request<sup>(1)</sup>

**IRAs:** people typically roll over their retirement plans into IRAs when they switch jobs because they allow you to defer paying income tax on the benefits.

Since both markets have the same fee structure, assume revenues are only a function of market size

**Handout 1:** current break down of different age groups

**Handout 2:** Growth trend for age groups 2050-2010. This chart shows total percent growth over the five year period (not annual growth or CAGR).

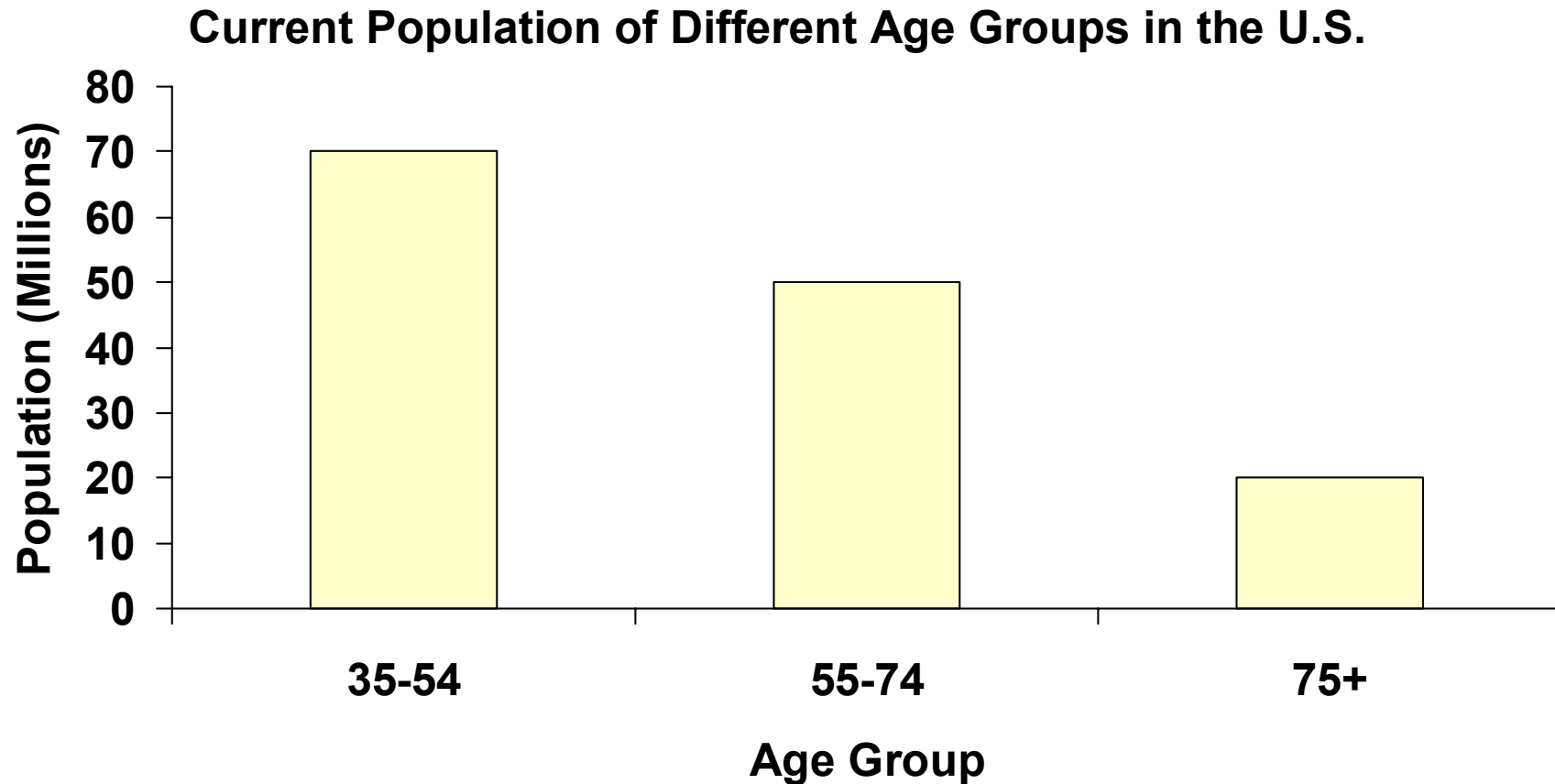
**Handout 3:** Average balances in retirement accounts per person.

**Hand 4:** Reason for selecting retirement plan provider.

**Question to candidate:** what does this slide tell you?

## Case 3: Retirement Plan (II of VI)

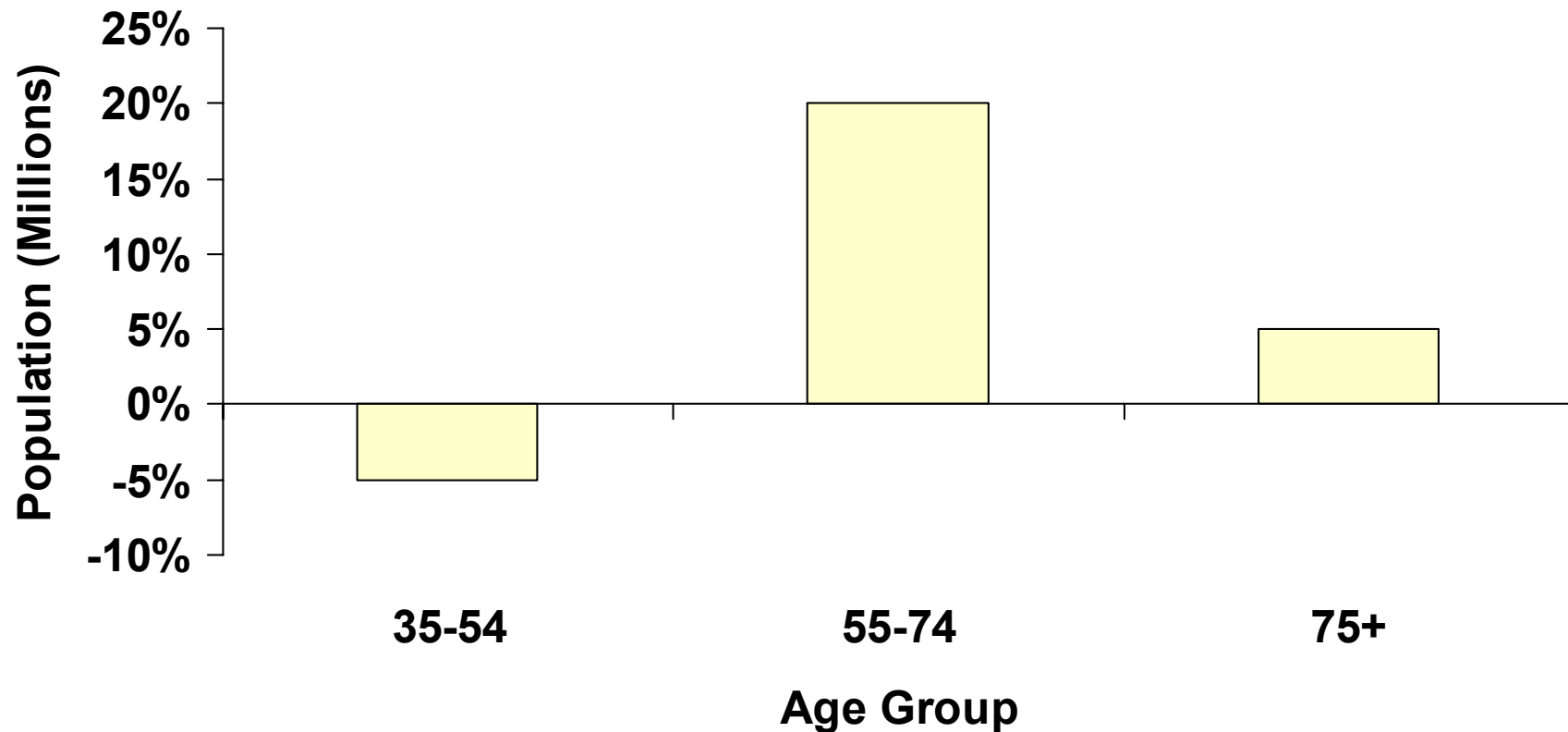
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## Case 3: Retirement Plan (III of VI)

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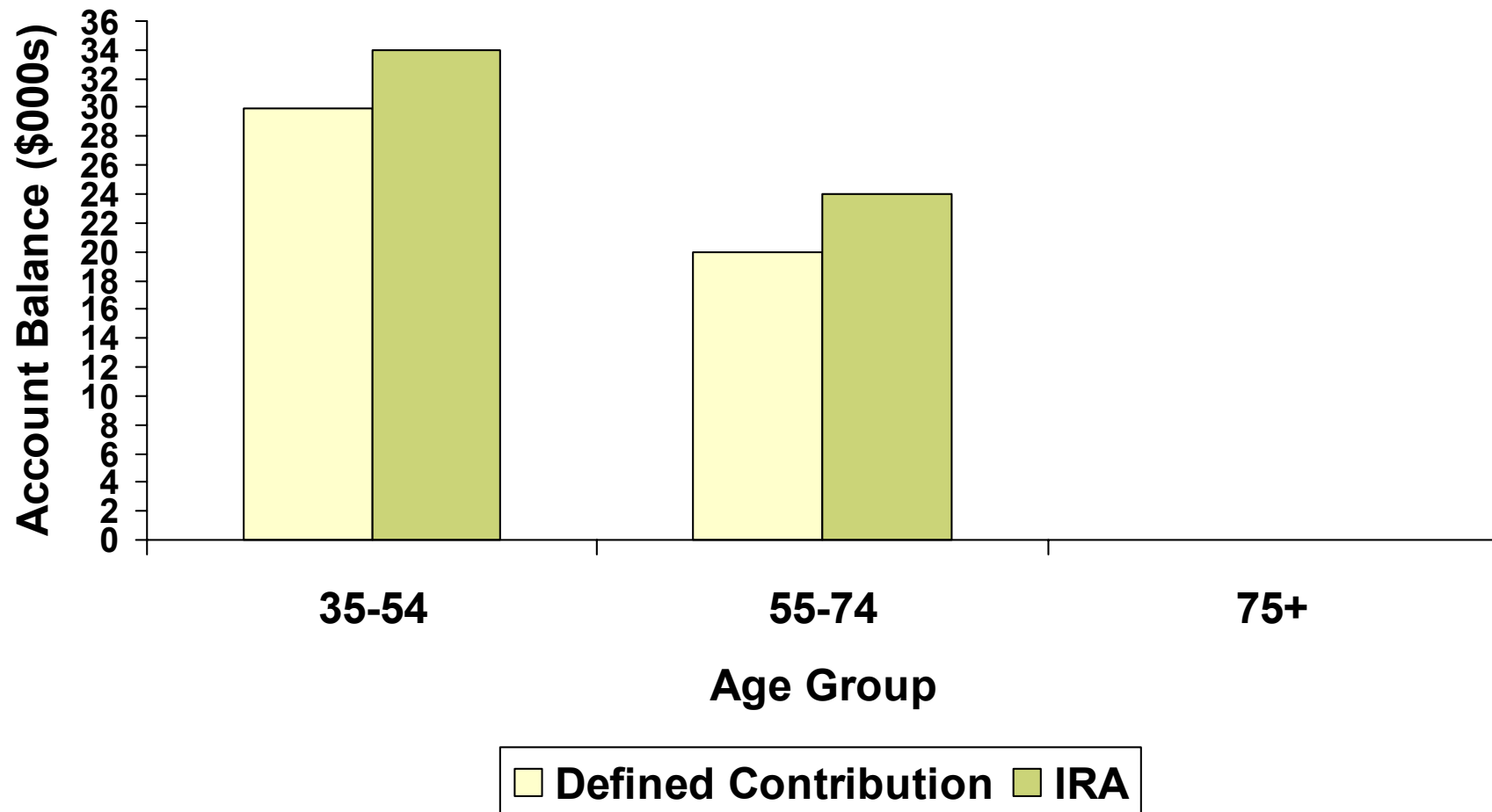
### Age Group Growth, U.S. 2005-2010



## Case 3: Retirement Plan (IV of VI)

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Current Population of Different Age Groups in the U.S.



## Case 3: Retirement Plan (V of VI)

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### Reasons for Choosing IRA Provider



## Case 3: Retirement Plan (VI of VI)

### Bain, Round 1

Candidate should calculate the population growth for each age group	<table><tr><th>Age Group</th><th>2005 Pop.</th><th>% Growth</th><th>Pop. Growth</th><th>2010 Pop.</th></tr><tr><td>35-54</td><td>70M</td><td>-5%</td><td>-3.5M</td><td>66.5M</td></tr><tr><td>55-74</td><td>50M</td><td>+20%</td><td>+10M</td><td>60M</td></tr><tr><td>75+</td><td>20M</td><td>+5%</td><td>+1M</td><td>21M</td></tr></table>	Age Group	2005 Pop.	% Growth	Pop. Growth	2010 Pop.	35-54	70M	-5%	-3.5M	66.5M	55-74	50M	+20%	+10M	60M	75+	20M	+5%	+1M	21M
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Then calculate the market size of each type of retirement account	<table><tr><th>Age Group</th><th>Account Balance of Defined Contribution</th><th>Account Balance of IRA</th></tr><tr><td>35-54</td><td>\$30K x 66.5M = \$2.0T</td><td>\$34K x 65M = \$2.21T</td></tr><tr><td>55-74</td><td>\$20K x 60M = \$1.2T</td><td>\$26K x 60M = \$1.56T</td></tr><tr><td>75+</td><td>\$0 x 21M = \$0</td><td>\$0 x 21M = \$0</td></tr><tr><td></td><td>MARKET SIZE = \$3.2T</td><td>MARKET SIZE = \$3.77T</td></tr></table>	Age Group	Account Balance of Defined Contribution	Account Balance of IRA	35-54	\$30K x 66.5M = \$2.0T	\$34K x 65M = \$2.21T	55-74	\$20K x 60M = \$1.2T	\$26K x 60M = \$1.56T	75+	\$0 x 21M = \$0	\$0 x 21M = \$0		MARKET SIZE = \$3.2T	MARKET SIZE = \$3.77T					
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Case Wrinkle	<ul style="list-style-type: none"><li>• There are different player planning to enter each market.<ul style="list-style-type: none"><li>• Discount brokers are Defined Contribution market, but may enter the IRA market. These firms, such as Fidelity Investments and Vanguard, are characterized by low price / low touch model</li><li>• IRAs tend to be provided such as full service brokers (e.g., Merrill Lynch</li></ul></li><li>• Given the data on Handout 4, how would you assess the threat of a discount brokerage entering the IRA market?</li></ul>																				
Solution Guide.	<p>IRAs represent the larger market and thus present a greater revenue opportunity. Entrance threats from discount brokers will be minimal because they do not have the capabilities to compete in this market.</p> <p>Next step: research market share of full-service firms currently in the IRA market and make sure we can steal share from them. Also explore the costs of launching and operating these services.</p>																				