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Office of Regulations and Interpretations
Employee Benefits Security Administration
Room N-5669
U.S. Department of Labor
200 Constitution Avenue, N.W.
Washington D.C. 202010
Attn: 401(k) Plan Investment Advice RFI

Ladies and Gentlemen,

Financial Engines respectfully submits the following comments in response to the Department of Labor's request for information on the provision of investment advice in individual retirement accounts.

Financial Engines Advisors L.L.C., a wholly owned subsidiary of Financial Engines, Inc., is a registered investment adviser that provides personalized investment advice and management services. Financial Engines was founded by Nobel Prize-winning economist William F. Sharpe, one of the fathers of Modern Portfolio Theory. Dr. Sharpe has helped some of the nation's largest pension fund managers invest billions of dollars of retirement assets. Through Financial Engines, these services, previously available only to the largest institutional clients, are now available to individuals through employers and financial institutions. As of December 31, 2006, Financial Engines offers services to over 5.7 million participants through leading employers and financial institutions.

One hundred percent of Financial Engines revenues are derived from offering advice and managed accounts. Financial Engines provides strictly objective and independent advice and investment management. Financial Engines does not receive any commissions, soft-dollar payments, 12-b1 fees, or any other revenues from the sale of investment products. No revenue is directly or indirectly received from asset management companies based on investment recommendations. Personalized advice and portfolio management is Financial Engines' sole business focus.

Since 1998, Financial Engines has provided online advice to individuals in defined contribution plans, and since 2001, we have provided advice on all tax-deferred and taxable account types (including IRAs and brokerage accounts). In each level of service, the personalized advice is rendered exclusively by a computer model. The advisory services provide a rich level of personalization capabilities. This methodology has been used to provide personalized investment advice to hundreds of thousands of individual investors primarily through financial institutions and employers, including employees of 90 of the Fortune 500 companies (as of 12/31/06). The services have been made available for more than eight years. Individual investors not associated with one of Financial Engines' financial institution alliances or plan sponsor customers, can access our service offerings directly on Financial Engines' web site (www.financialengines.com) for an advisory fee.

Request for information

1. Are there computer model investment advice programs for the current year and preceding year that are, or may be, utilized to provide investment advice to beneficiaries of plans described in section 4975 (e)(1)(B) -(F) (and so much of subparagraph G as relates to such subparagraphs) (hereinafter IRA) of the code which:

Yes. Since 1998, Financial Engines has provided online advice to individuals in defined contribution plans, and since 2001, we have provided advice on all tax-deferred and taxable account types (including IRAs and brokerage accounts). In each level of service, the personalized advice is rendered exclusively by a computer model. The advisory services provide a rich level of personalization capabilities. This methodology has been used to provide personalized investment advice to hundreds of thousands of individual investors primarily through financial institutions and employers, including employees of 90 of the Fortune 500 companies (as of 12/31/06). The services have been made available for more than eight years. Individual investors not associated with one of Financial Engines' financial institution alliances or plan sponsor customers, can access our service offerings directly on Financial Engines' web site (www.financialengines.com) for an advisory fee. In addition, a leading financial services company makes available Financial Engines online advice across multiple household accounts (including IRAs) to its retail customers with substantial account balances. Our platform is also utilized by another financial services company to provide advice on IRAs through that entity's investment advisor representatives.

Our services provide investors with specific, personalized advice on how to reach their retirement goals. Key features include:

- Retirement income and wealth estimates using Monte Carlo simulation across all assets;
- Forecast reflecting personal goals and likelihood of achieving them;
- Specific advice on savings, investments, risk, and company stock that is unique to each user (i.e., no model portfolios)
 - a) Total Retirement Advice on all of a household's tax-deferred assets (including 401(k), 403(b), IRA, Roth IRA, and SEP-IRA accounts) or
 - b) Total Portfolio Advice on all of a household's tax-deferred and taxable assets (with no limit to the number of accounts).
- No limit on the number of accounts or investment options that may be considered.

(a) Apply generally accepted investment theories that take into account the historic returns of different asset classes over defined periods of time;

Financial Engines' suite of services provide specific investment recommendations and personalized portfolio management based on the work of founder William F. Sharpe, 1990 Nobel Laureate in Economics. Financial Engines has extended Dr. Sharpe's application of modern financial economics from the pension world to the challenges of individual investors. Specifically, the company uses best practices from academic finance and the world of institutional money management to provide personalized investment advice and management to individual investors.

The foundation of the portfolio allocation system utilized by Financial Engines is Modern Portfolio Theory. The company's founder, William F. Sharpe was an innovator in development of the Modern Portfolio Theory and its application to real-world investing problems. The goal of our methodology is to help investors construct portfolios that maximize their expected returns relative to their desired level of risk. Our analysis is conducted using the actual characteristics of the investment vehicle. For example, in the case of mutual funds, we consider factors such as asset class exposures, account fund expenses, turnover, style, and manager performance to determine how those assets may perform for a range of economic outcomes. To facilitate modeling the problems faced by all investors, our platform accurately models the characteristics of thousands of mutual funds, institutional funds, and individual securities. This analysis is typically conducted monthly. Our optimization model draws upon the latest academic research on asset class factor models, the measurement and

prediction of manager performance, and the estimation of market risk premium using information embedded in market equilibrium and historical asset class returns.

In addition, Financial Engines utilizes Monte Carlo simulation methods to provide a likely range of outcomes of the user's portfolio, by assessing the specific investment instruments response to underlying asset class and market performance – rather than relying on a deterministic projection of the user's likely return. Monte Carlo models have been used in pension fund asset/liability studies for more than two decades, but Financial Engines was among the first companies to bring this powerful technology to individuals. Our analysis provides an estimate of the likely median outcome, as well as an upside case (top 5% probability) as well as a downside case (bottom 5% probability) so that the user can make an informed decision on their strategy. By providing real-time access to sophisticated simulations of their actual portfolio, investors can view how their investment outcomes change with different strategies.

(b) Utilize relevant information about the beneficiary, which may include age, life expectancy, retirement age, risk tolerance, other assets or sources of income, and preferences as to certain types of investment;

All advice and projections are personalized to the user, based on as much information on their complete financial situation as they elect to provide. For two investors of the same age and with identical balances, our advice will be unique for each depending on their outside assets and initial portfolio holdings. This personalized approach recognizes the complexities of each user's financial circumstances and provides unique recommendations designed to maximize their probability of reaching their retirement or financial goals. In providing advice across multiple accounts, Financial Engines takes a 'total portfolio' approach – selecting suitable options available from among all the accounts being advised. There is no limit to the number of investment options that can be considered in an account.

Using sophisticated Monte Carlo simulation, Financial Engines allows the investor or advisor to interactively explore the trade-offs associated with key decision variables including risk tolerance, savings, investment horizon, and spending needs. Each change in decision variable results in an updated financial forecast, and, where relevant, a new recommended portfolio across the available investment options. The investor may also model an unlimited number of other assets and/or sources of income.

In addition, investors can specify preferences on specific holdings or types of investments. For instance, an investor can select a minimum holding of a particular asset, and the system will update the recommendations to reflect the constraint and take into account its impact on the unconstrained assets. Investors can also specify restrictions on the types of investments to be considered (e.g. specific fund families, no-load products, ETFs, etc.)

(c) Operate in a manner that is not biased in favor of investments offered by the fiduciary adviser or a person with a material affiliation or contractual relationship with the fiduciary adviser;

Financial Engines provides strictly objective and independent advice and investment management. Financial Engines does not receive any commissions, soft-dollar payments, 12-b1 fees, or any other revenues from the sale of investment products, and compensation is unaffected by the investment advice

rendered. One hundred percent of Financial Engines revenues are derived from advice and managed accounts for investors. No compensation is earned from asset management companies based on investment recommendations. Personalized advice and portfolio management is Financial Engines' primary business focus.

Our investment methodology is consistent across all our customers and provider relationships and is completely unbiased. Advisors or investors utilizing the platform are not able to modify the methodology or underlying investment assumptions.

(d) Take into account the full range of investments, including equities and bonds, in determining the options for the investment portfolios of the beneficiary; and

The Financial Engines platform is able to provide investment recommendations and simulation forecasts across a wide range of investment products. These products include mutual funds (including equity and fixed income, both actively managed and passive), institutional and commingled fund products, separate accounts, exchange-traded funds, individual equities, stock funds, stable value investments, and cash accounts (money market accounts).

(e) Allow the beneficiary, in directing the investment, sufficient flexibility in obtaining advice to evaluate and select investment options.

The Financial Engines platform allows the beneficiary flexibility in specifying the available investment universe. An investor can stipulate preferences to limit advice to certain share classes, categories, or families of investment products. In addition, if desired, the recommendations can be modified by the investor to take into account specific position-level preferences (e.g. up to 20% in this product, or maintaining a current position). Financial Engines provides substantial background and analysis on each of the investments in our database including investment exposures, expenses and fees, investment performance (both absolute and relative to an appropriate benchmark), and forward-looking simulation results.

2. If currently available computer models do not satisfy all of the criteria described above, which criteria are presently not considered by such computer models? Would it be possible to develop a computer model that satisfies all unspecified criteria? Which criteria would pose difficulties to developers and why?

Currently, Financial Engines' systems are able to provide simulation forecasts of individual bond positions, but do not provide specific product-level recommendations across bond issues (outside of a fund). An advisor or investor can specify the characteristics of individual bond positions that they own (including duration, type, credit rating, and tax treatment), and have them incorporated into the household forecast. It would be a straightforward extension of our methodology to enable such individual bond recommendations if desired, but there has been little market demand for such extensions to date.

3. If there are any currently available computer model investment advice programs meeting the criteria described in Question 1 that may be utilized for providing investment advice to IRA beneficiaries, please provide a complete description of such programs and the extent to which they are available to beneficiaries.

Since 1998, Financial Engines has provided online advice to individuals in defined contribution plans, and since 2001, we have provided advice on all tax-deferred and taxable account types (including IRAs and brokerage accounts). In each level of service, the personalized advice is

rendered exclusively by a computer model. The advisory services provide a rich level of personalization capabilities. This methodology has been used to provide personalized investment advice to hundreds of thousands of individual investors primarily through employers and financial institutions. The services have been made available for more than eight years, and are available to employees of 90 of the Fortune 500 companies (as of 12/31/06) among others. Individual investors not associated with one of Financial Engines' financial institution alliances or plan sponsor customers, can access our service offerings directly on Financial Engines' web site (www.financialengines.com) for an advisory fee. In addition, a leading financial services company makes available Financial Engines online advice across multiple household accounts (including IRAs) to its retail customers with substantial account balances. Our platform is also utilized by another financial services company to provide advice on IRAs through that entity's investment advisor representatives using our Professional Advisor service.

Users of the Personal Online Advisor (online advice service) can elect to obtain advice across all the accounts in their portfolio if they include information on these outside accounts. Advice may be provided either for all tax-deferred accounts (Total Retirement Advice) or including taxable accounts (Total Portfolio Advice, all tax-deferred plus brokerage accounts). In providing advice across other outside accounts, Financial Engines takes a 'total portfolio' approach – selecting the best options available from among all the accounts being advised. There is no limit to the number of investment options that can be considered in any account.

Retirement

- Acme, Inc. 401(k)
- John's Roth IRA
- Jane's Brokerage Acc...
- Jane's 403(b)

Vacation home down P...

- Vacation home broker...
- John's Stock Options

- Add goal
- Add account
- Add stock option

Support

- Customer Support
- Common Questions

Retirement

Your outlook at age 63

Retirement Forecast

Chance your investments and benefits will provide \$90,000 per year. [More...](#)

Retirement income

Estimated annual income you may have at age 63. [More...](#)

- Upside - excellent performance*
- Median - average performance
- Downside - poor performance*



You have advice!
Get Advice

What if...?

Explore changes to your risk, savings or goals using our sliders.

- Assumptions
- Advice Light settings

*Note: There is a 5% chance you'll have less than the downside amount and a 5% chance you'll have more than the upside amount. Amounts shown are in pre-tax dollars and have been [adjusted for inflation](#).

Your goals

Retirement		Analyze Edit
Desired goal	\$90,000/yr	
Minimum goal	\$70,000/yr	
Your retirement age	63	
Jane Doe retirement age	65	

Your investments

Acme, Inc. 401(k)		Analyze Edit
Cedar Money Market Fund	\$10,000	
Cedar US Bond Fund	\$9,500	
Cedar Growth & Income Fund	\$15,300	
Cedar Small Cap Equity Fund	\$11,400	
Acme Company Stock	\$16,205	
	\$62,405	
John's Roth IRA		Analyze Edit
Maple S&P 500 Equity Index Fu...	\$2,400	
Maple Aggressive Growth Fund	\$3,700	
	\$6,100	

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Your retirement income estimate
How much you'll have in the future depends on how your investments perform.

Your outlook at age 63

Retirement Income
We estimate that if your investment performance is average, your \$130,617 of investments, your contributions, matching, pension and Social Security may provide **\$84,800 or more per year** in retirement income [adjusted for inflation](#) by age 63.

[What will my portfolio be worth?](#)

Based on your current investments

Downside	Median	Upside
\$63,400 per year	\$84,800 per year	\$128,000 per year
If your investment performance is poor*	If your investment performance is average	If your investment performance is excellent*

[Assumptions used to create your Forecast](#)

*Note: There is a 5% chance you'll have less than the downside amount and a 5% chance you'll have more than the upside amount. Amounts shown are in pre-tax dollars and have been [adjusted for inflation](#).

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Your risk level
Many investors don't realize how much risk they are taking. Risk can drive long-term rewards or expose you to losses in the short or long term.

Your risk and possible 1-year loss

Your risk level
You are invested in a portfolio that is [moderately aggressive \(1.26\)](#). Your investments are 1.26 times more risky than the market portfolio, which is moderate (1.0) risk.

Possible 1-year loss
There is a 5% chance your portfolio of \$130,617 could decline by \$21,200 (16.2%) or more in the next 12 months.

Based on your current investments

Moderately aggressive (1.26)

0.2 1.0 (Moderate) 2.0 3.0 4.0

16.2% or more

4. With respect to any program described in response to question three, do any of such programs permit the IRA beneficiaries to invest IRA assets in virtually any investment? If not what are the difficulties, if any, in creating such a model?

The Financial Engines advisory platform allows beneficiaries to invest in any investment (beyond the thousands of securities directly modeled in the system) through the use of User Defined Assets. User Defined Assets can include any financial asset held in an IRA or similar account (including collectables, real estate, private securities, etc.). This functionality allows beneficiaries or their advisors to include non-standard assets in their portfolio forecast and analysis. The beneficiary is asked to provide information on the User Defined Asset including expected rate of growth. Within the range of modeled investment securities (detailed above), there are no limitations on the number of options that may be considered.

5. If computer model investment advice programs are not currently available to IRA beneficiaries that permit the investment of IRA assets in virtually any investment, are there computer model investment advice programs currently available to IRA beneficiaries that, by design or operation, limit the investments modeled by the computer program to a subset of the investment universe? If so, who is responsible for the development of such investment limitations and how are the limitations developed? Is there any flexibility on the part of an IRA beneficiary to modify the computer model to take into account his or her preferences? Are such computer model investment advice programs available to the beneficiaries of IRAs that are not maintained by the persons offering such programs?

Most implementations of the Financial Engines advisory platform focus on investment advice across mutual fund and institutional fund products (including ETFs) and individual equities. In such implementations, the investment universe can be unconstrained, thus covering virtually any investment as described above, or limited by choice to specific fund families, supermarkets, or no-transaction fee subsets of available products. The specification of the investment universe limitations are up to the fiduciary offering the advisory service, or to the beneficiary using the service. For instance, in the Total Portfolio Advice service offering from Financial Engines, the beneficiary can limit the recommendations to one or more specific fund families or fund supermarkets.

Financial Engines offers IRA investment advisory services primarily in alliance with financial institutions offering advice branded under their own identity. Individual investors not associated with one of Financial Engines' financial institution partners can access our service offerings directly on Financial Engines' web site (www.financialengines.com) for an advisory fee.

6. If you offer a computer model investment advice programs based on nonproprietary investment products, do you make the program available to investment accounts maintained by you on behalf of IRA beneficiaries?

Financial Engines does not provide custodial services for IRA accounts for beneficiaries, nor does it sell investment products like mutual funds. Our services are limited to personalized advisory and discretionary management services for individual investors.

7. What are the investment options considered by computer investment advice programs? What information on such options is needed? How is the information obtained and made part of the programs? Is the information publicly available and available to IRA beneficiaries?

The Financial Engines platform is able to provide investment recommendations and simulation forecasts across a wide range of investment products. These products include mutual funds (including equity and fixed income, both actively managed and passive), institutional and commingled fund products, separate accounts, exchange-traded funds, individual equities, stock funds, stable value investments, and cash accounts (money market accounts). The information required to model such investments comes from a variety of external data vendors and proprietary calculations. Information about the modeling of such investments is made available to beneficiaries in the context of the advisory services through fund scorecards, risk evaluations, and Monte Carlo simulations of investment performance.

8. How should the Department or a third-party evaluate a computer model investment advice program to determine whether the program satisfies the criteria described in question 1 or any other similar criteria established to evaluate such programs?

The determination of computer model investment advice program functionality can be evaluated through demonstrations of the available vendor services, and through due diligence on the underlying investment methodology by appropriate experts (either internal or external). One potentially challenging aspect of the evaluation process may be establishing that the model is

completely unbiased in its recommendations. Determining whether this criterion is met requires an evaluation of the underlying methodology and presentation of advisory results to establish that the recommendations are based on consistent criteria for investment selection, unaffected by the identity of the investment manager. It may also be helpful to review the expertise and experience of the model builders to determine whether a prudent and rigorous methodology underlies the advice.

9. How do computer model investment advice programs present advice to IRA beneficiaries? How do such programs allow beneficiaries to refine, amend or override provided advice?

The investment advice is presented in both screen and printed form, showing the specific recommendations and actions required to implement the advice. At any time in the interaction, the beneficiary can override some or all of the investment recommendations through the imposition of user-defined constraints. These constraints can force a sale of an otherwise recommended security, maintain existing positions irrespective of the recommendation, or limit the recommendations to a minimum or maximum value. In each case, the remaining unconstrained asset recommendations are updated to reflect the user preference. Through the use of interactive Monte Carlo simulation, the beneficiary can see the immediate impact of such constraints on their financial forecast. Beneficiaries or advisors utilizing the platform are not able to modify the investment methodology or underlying investment assumptions.

Financial Engines appreciates the opportunity to provide information. We welcome the occasion to work with the Department and to provide any further assistance that may be required. Please contact us should you have any questions.

Sincerely,



Christopher Jones
Chief Investment Officer and Executive Vice President