

BlackRock CoRI® Retirement Indexes

The BlackRock CoRI Retirement Indexes are a series of U.S. bond indexes designed to help determine, in today's dollars, the estimated cost of purchasing lifetime retirement income at age 65 or later. This income estimate includes an annual cost-of-living adjustment to account for inflation expectations.

Today the series includes twenty indexes, one each for U.S. investors from age 55 to age 74. Each index within the series corresponds to a specific year in which an individual will turn or turned 65. The index construction process is designed to result in an actionable, current benchmark for estimating the future lifetime retirement income potential of an investor's savings over time. For ease of reference throughout this document, we will refer to the full series as the "CoRI Index," or the "Index."

Steps in creating the Index

Universe definition

In selecting the universe of securities that are eligible for inclusion in the Index, we begin with investment grade, U.S. dollar-denominated bonds. We may include split-rated bonds if the median of the ratings is investment grade. From this universe, we exclude securities with less than 2 years to maturity and include only those bonds that are senior, unsecured within the capital structure. Further, we filter the universe to exclude the following bonds:

- Securitized bonds
- Perpetual bonds
- Convertible bonds
- Private placements
- Eurobonds
- Covered bonds
- Pfandbriefe
- Municipal bonds
- Build America bonds
- Bonds with embedded options (calls, sinking, puts, floaters)
- Non-fixed rate coupons
- 144a issues without registration rights
- Non-public/nonregistered Yankee bonds

We then add U.S. Treasury bonds and U.S. Treasury STRIPS to the universe.

Estimation of cash flows

In order to estimate the cost of lifetime retirement income, we need to assess the cash flows that an investor is likely to receive if they participate in a mortality pool. Publicly available mortality tables are used to determine the expected probability that an individual will receive each cash flow from age 65 through the end of life. At the time of this writing, the maximum lifespan accounted for in our calculation is 115 years of age. Once the Index reaches the year referenced in its name, the calculation will consider annual cash flows starting the following month. The advantage of this approach is that comprehensive and recent data regarding mortality estimates can be incorporated into the liability estimate.

Time discounting

In addition to properly estimating what cash flows an investor is likely to receive through retirement, it is important to choose the proper yield curve to calculate discount factors for each of those cash flows. The proper curve should take into account the current range of credit spreads that exist in the marketplace and should result in consistent pricing of liability cash flows over time.

Inflation expectations

Each cash flow is increased by a cost-of-living adjustment (COLA) to account for inflation. We consider yields for U.S. Treasury Inflation Protected Securities (i.e., the TIPS curve) and observed historical inflation over time to set the COLA for each Index.

Insurance company appetite for providing lifetime income

Using the cash flow estimate and discounting curves referenced above, a present value can be calculated for future liabilities. This present value is compared to current prices for lifetime income in the marketplace to see if they align. If there is a deviation between the calculated present value and current prices for lifetime income, the discount curve is adjusted as necessary to achieve alignment. The size of this adjustment is reflective of the changing appetite that insurance companies have for providing lifetime income at any given point in time, as expressed in current pricing.

Creation of bond portfolio for Index

An investable bond portfolio is then constructed to closely track the attributes of the cash flow estimate described above, with the objective of an aggregate return that tracks the estimated cost of future lifetime income, such that the value or "level" of the Index will converge to the median annuity price for an individual turning 65 in the year denoted by the Index. Thereafter, the Index will seek to track the median price for immediate lifetime income on a continuous basis. The bonds that comprise the Index and their aggregate performance are published on a daily basis.

Because both the liabilities that are being modelled and the bonds that comprise the Index are decreasing in tenor/maturity each month in a similar fashion, we expect that the turnover of the Index portfolio should be relatively low over monthly rebalancing periods.

Important Notes

The BlackRock CoRI Retirement Indexes, allocations and data are subject to change.

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. Indexes are unmanaged and one cannot invest directly in an index.

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