What Employers Lose in the Shift from DB to DC Plans… and How to Get It Back

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The primary workplace retirement offering has shifted from defined benefit (DB) plans to defined contribution (DC) plans.

Much of the responsibility to create positive retirement outcomes lies on the shoulders of individual American workers.
Higher level of savings
Lower delivery cost
Greater participant coverage
Pooled longevity and investment risk
Professionally managed investments
Certainty of outcomes for participants
Workforce management by employers
Pension Benefit Guaranty Corporation
Lack of Confidence

• Among the roughly 50% of private-sector workers with access to any type of workplace retirement plan, the percentage covered by a DB plan has fallen from 83% in 1980 to 31% in 2008.¹

• Leads to inability for workers to retire on time.

¹Center for Retirement Research at Boston College calculations from Form 5500 filings, March 2011.
Potential Workforce Management Challenges

- Delayed Retirements
- Less Predictable Retirements
- Increased Volatility in Staffing Needs
- Higher Workforce Costs
- Reduced Workforce Engagement
Bridging the chasm to retirement
Defined contribution plans without guarantees
Defined contribution plans with guarantees
Traditionally, DC Plans do not offer:

- Retirement coverage for all workplaces—especially among small employers
- Protection against market risk near retirement
- Protection against longevity risk after retirement
- Pooled, professional management of institutional assets (not commingled with cash flows of retail assets)
A Coverage Solution: Multiple Employer Plans

Challenges
Cost
Hassle
Fiduciary

Common Elements
Pooling
Model Plan
Safe Harbor

112th Congress
HR 1534
HR 4050
SB 1557

SOURCE: Kalamarides' Testimony to U.S. Senate Special Committee on Aging, March, 2012.
Nine out of ten participants in defined contribution plans seek guaranteed income that they cannot outlive.*


Guarantees are based on the claims-paying ability of the insurance company and are subject to certain limitations, terms, and conditions. Withdrawals may reduce guaranteed values prior to locking in a lifetime annual withdrawal benefit. After Lock-in, excess withdrawals will reduce future guaranteed withdrawals proportionately and may even eliminate them.
How an in-plan GMWB works
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Once a participant “Locks-In,” his or her lifetime annual withdrawal amount is guaranteed for as long as they live, even if either declining market performance or his or her annual withdrawals reduce his or her Market Value to zero.

The hypothetical example above is for illustration purposes only. It does not reflect an actual experience or the performance of any investment. In this example, a participant continues to make regular plan contributions and does not take any withdrawals during the 10-year period prior to Lock-In.
Case Study: GMWB Effectiveness in DC Plans

Sheila’s Profile

• Begins saving at age 30 in DC Plan
• Salary at age 30 is $30,000, increasing 4% each year

Goal: Retire at age 65 replacing 75% of final salary

Retirement Income Sources
  ✓ Social Security
  ✓ DC Assets
Case Study: GMWB Effectiveness in DC Plans

Case Study Results
At 65, Sheila will need to generate $34,431 from DC Assets to achieve her retirement income target.

DC assets required to retire

<table>
<thead>
<tr>
<th>Traditional DC plan</th>
<th>GMWB DC plan</th>
</tr>
</thead>
<tbody>
<tr>
<td>$1,075,969</td>
<td>$688,620</td>
</tr>
</tbody>
</table>

Probability of being able to retire at 65

<table>
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<tr>
<th>Traditional DC plan</th>
<th>GMWB DC plan</th>
</tr>
</thead>
<tbody>
<tr>
<td>35%</td>
<td>77%</td>
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Notes: Assets required to retire within the GMWB DC plan reflect the level that the income base must reach. Source: Prudential Financial calculations of 2,000 Monte Carlo simulations.