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

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The Changing Retirement Landscape

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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.

DB Plan Effectiveness

- ✓ 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

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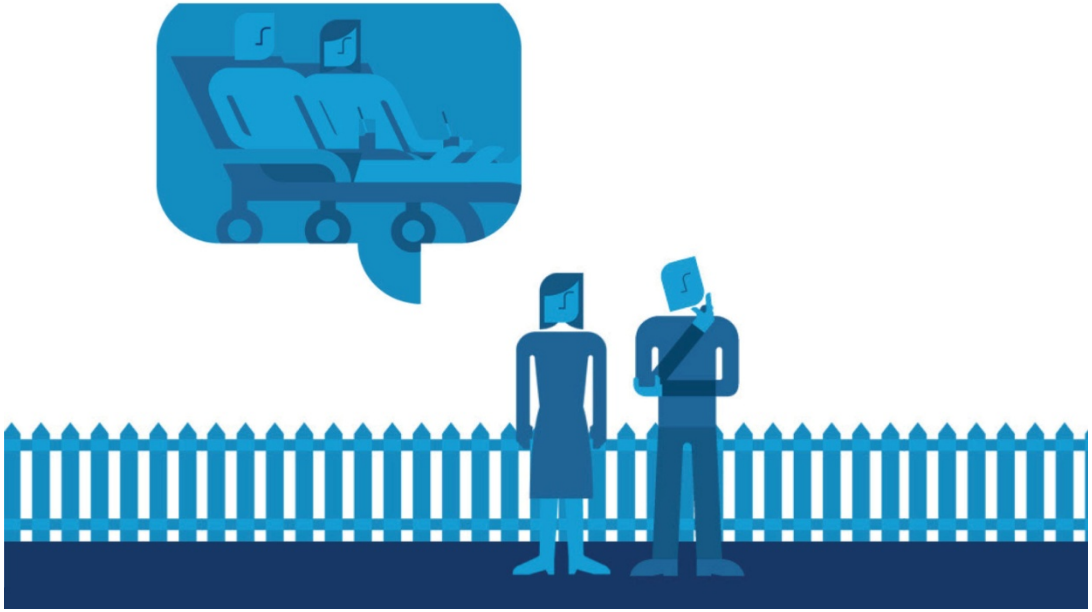
- Among the roughly 50% of private-sector workers with access to any type of workplace retirement plan, the percentage covered by a DB plan has fallen from 83% in 1980 to 31% in 2008.[1]

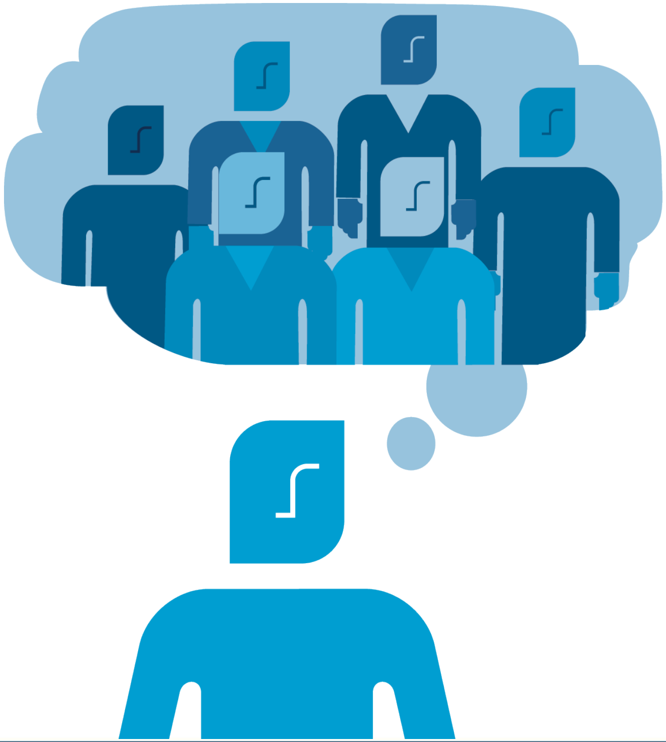
- Leads to inability for workers to retire on time.



[1]Center 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

Improving the Effectiveness of DC Plans

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Traditional DC Plans, alone, 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)**

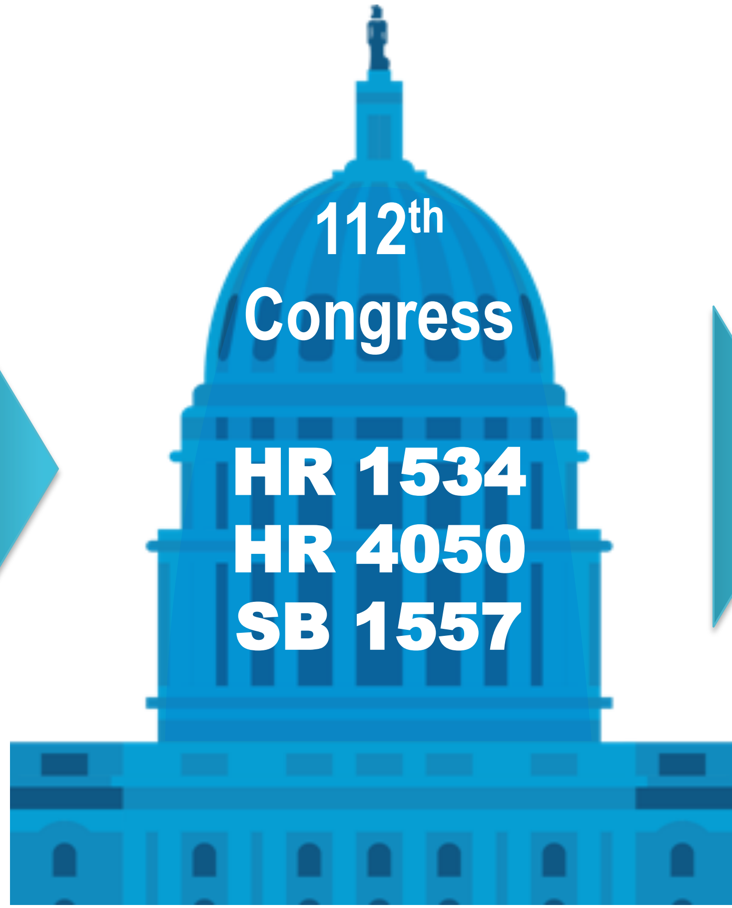
A Coverage Solution: Multiple Employer Plans

Challenges

Cost

Hassle

Fiduciary



Common Elements

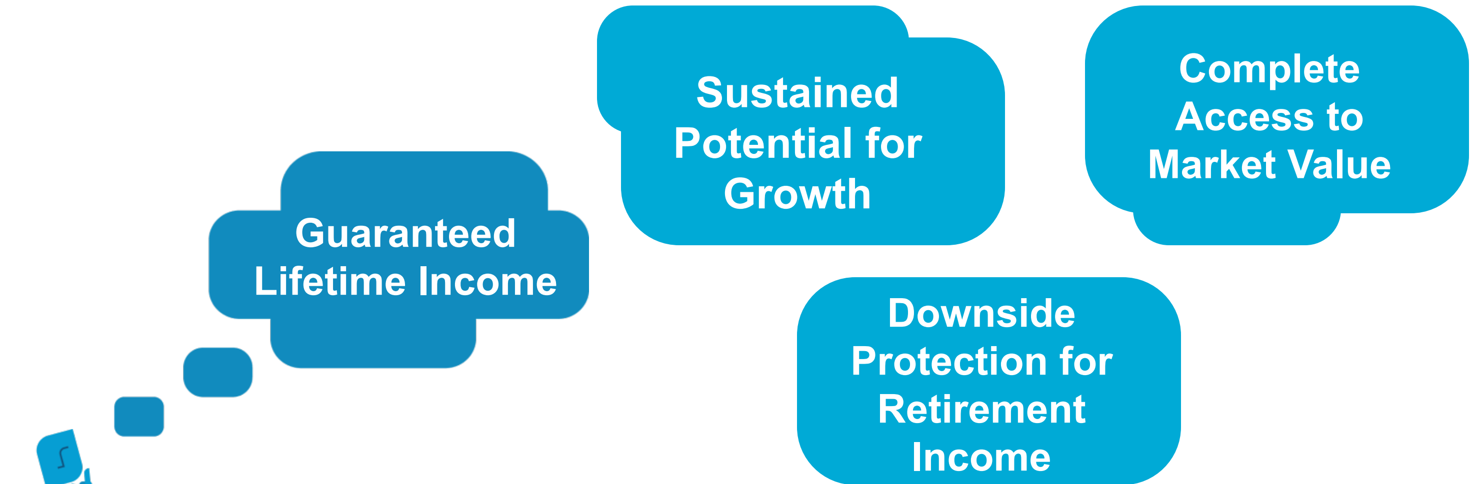
Pooling

Model Plan

Safe Harbor

SOURCE: Kalamarides' Testimony to U.S. Senate Special Committee on Aging, March, 2012.

Giving Participants the Tools to Create DB Outcomes



Nine out of ten participants in defined contribution plans seek guaranteed income that they cannot outlive.*

* 2010 Greenwald Survey ACLI. **Corporate Executive Board, "A Window on the Future: The Trends that Will Define the Industry in 2010."

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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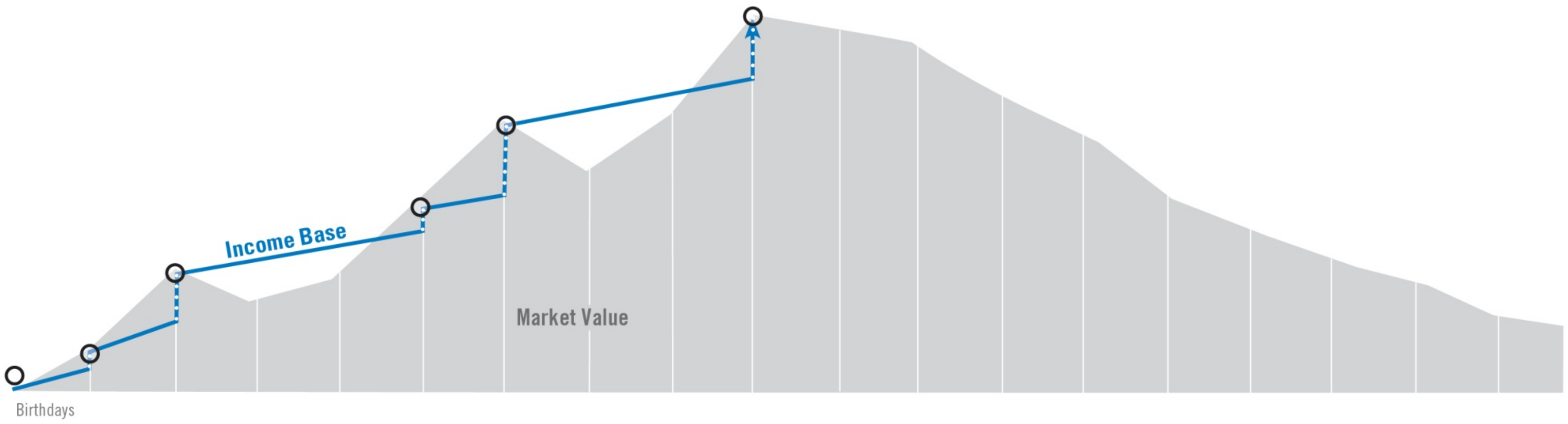
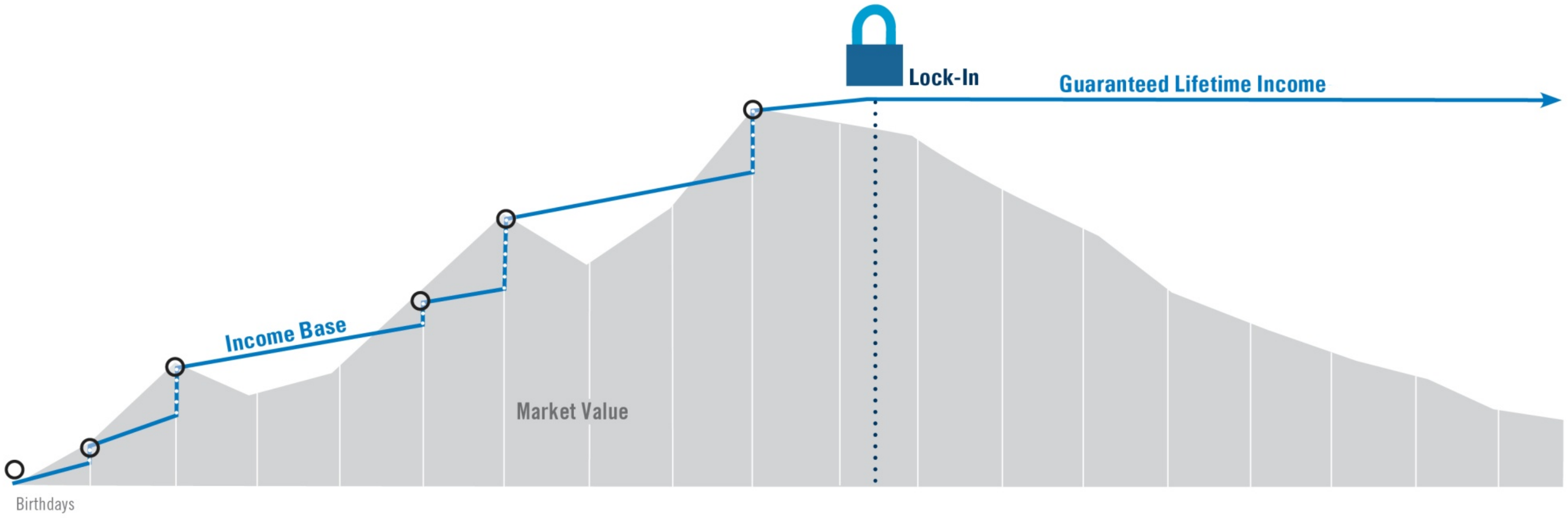
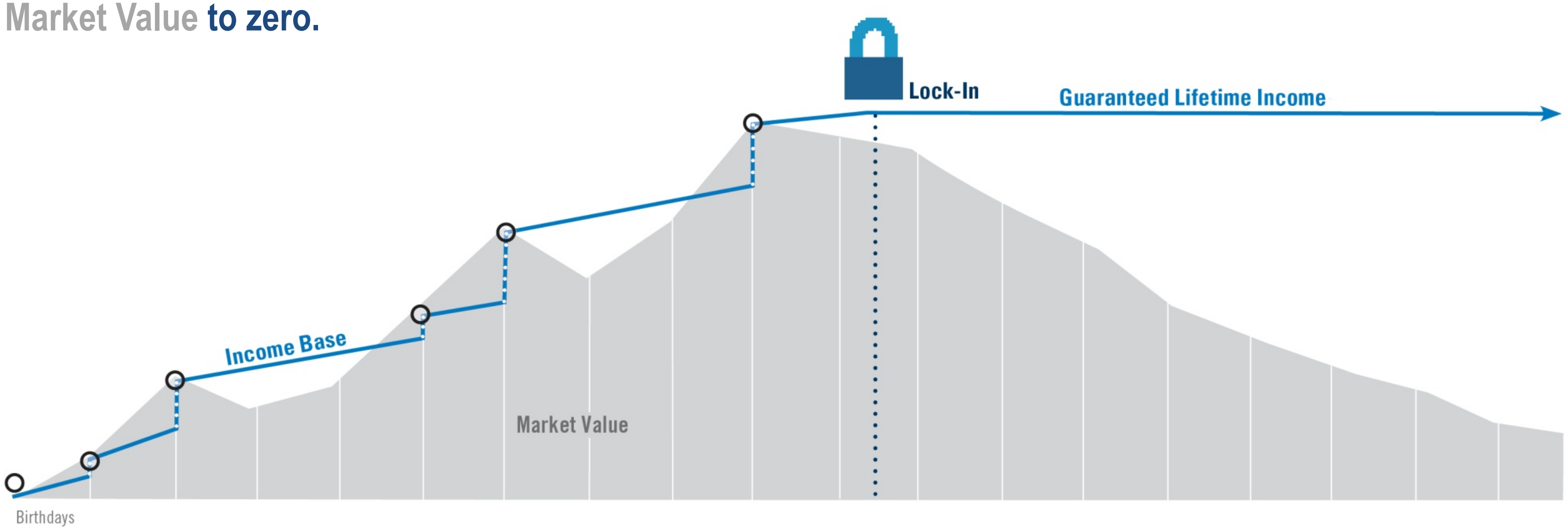


How an in-plan GMWB works



How an in-plan GMWB works

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

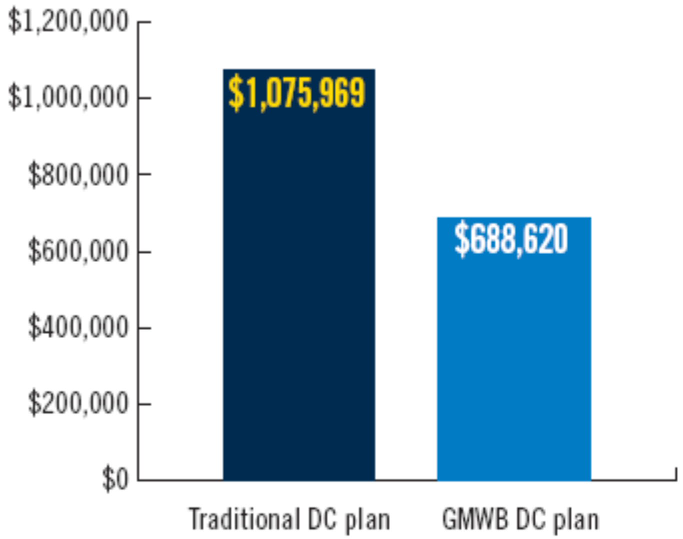
✓ Social Security
✓ DC Assets

Case Study: GMWB Effectiveness in DC Plans

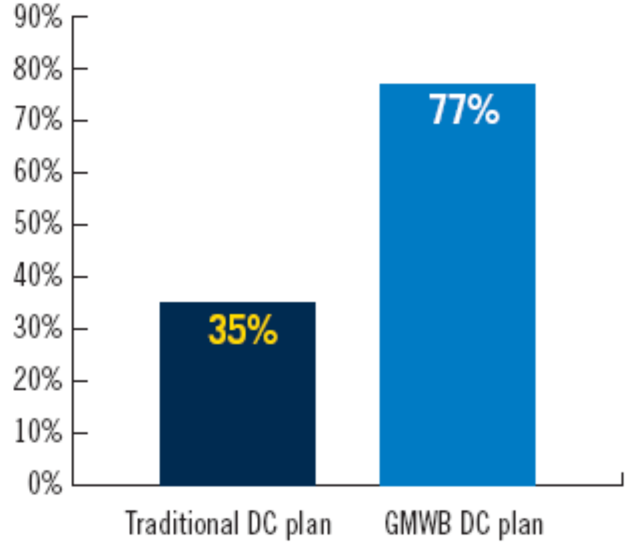
Case Study Results

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

DC assets required to retire

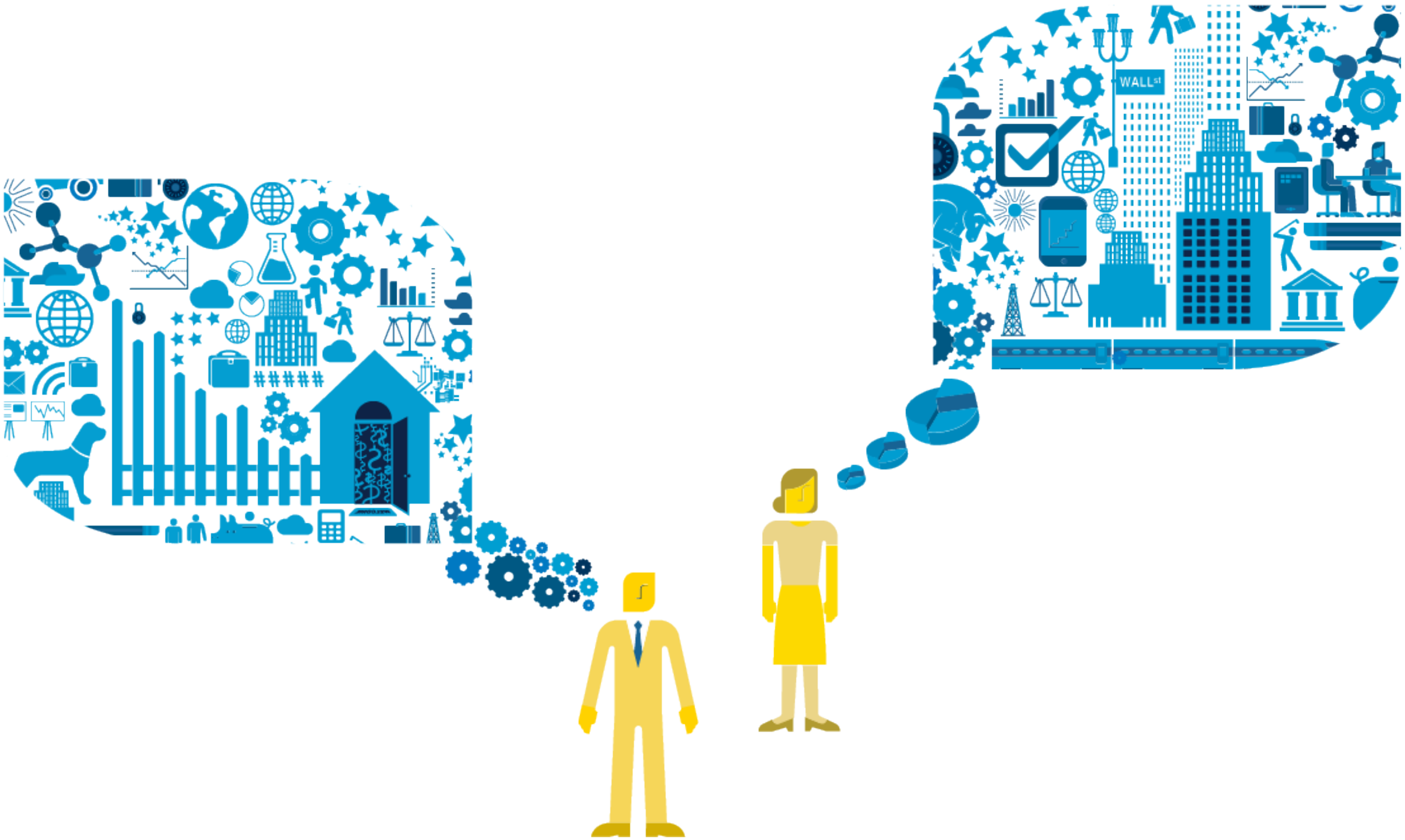


Probability of being able to retire at 65



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.

Question & Answer Session



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