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Prudential

Combining a Guaranteed Minimum Withdrawal Benefit with a QDIA

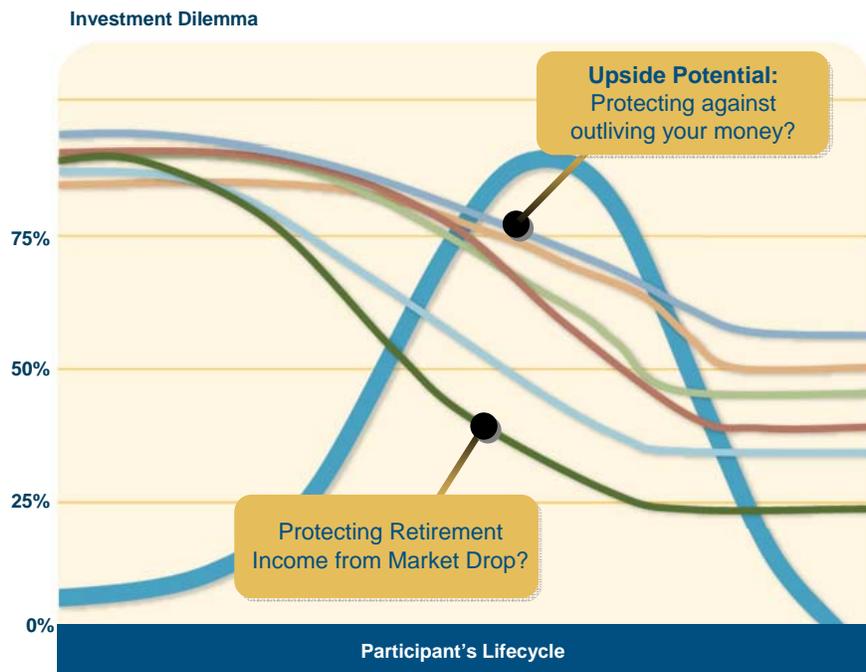
EBRI Policy Forum:
*Decumulation /
Retirement Income in
Defined Contribution Plans*

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Vice President, Innovative Simplicity
Prudential Retirement

May 7, 2009

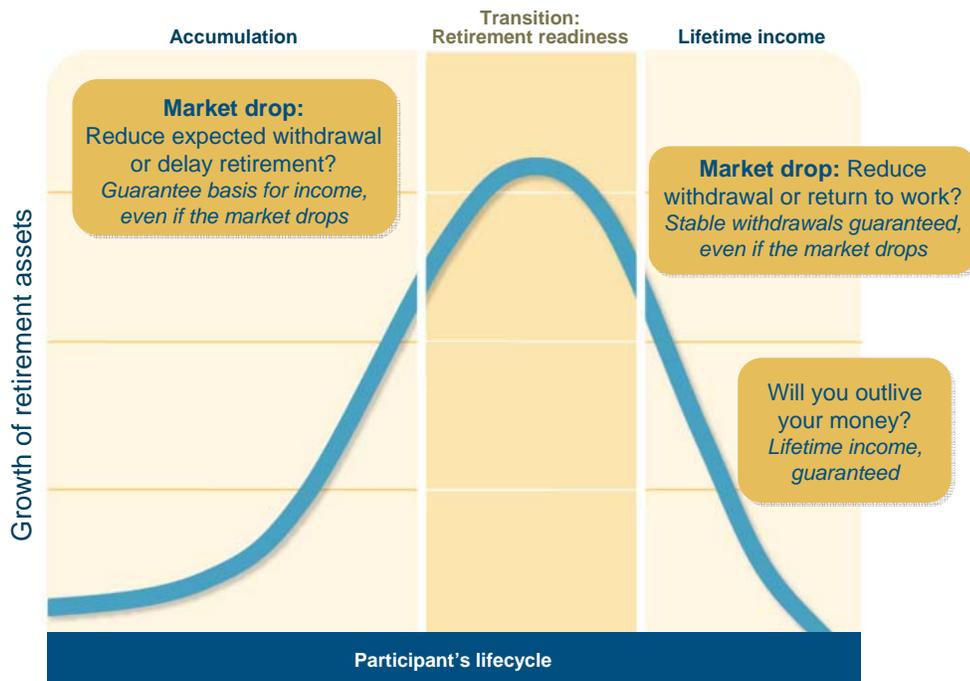
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Delivering Positive Outcomes: What is the Right Target?



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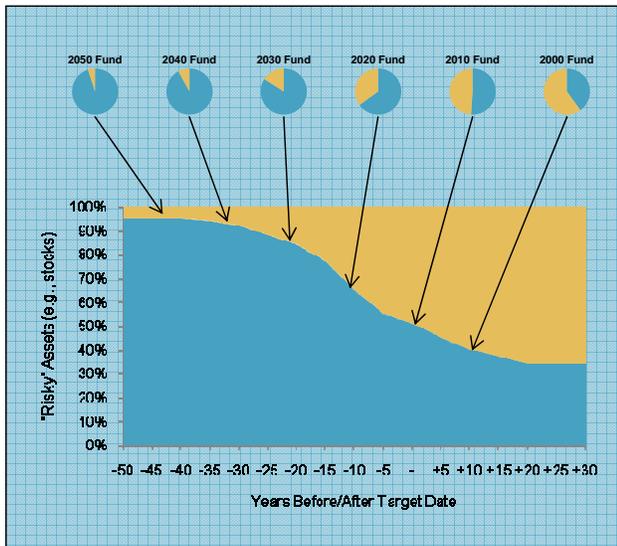
Delivering Positive Outcomes: Possible Through Asset Allocation Alone?



How Guarantees Could Improve Target Date Funds' Risk/Return Trade-Offs

“Typical” Target Date Fund Family

Typical target date funds – without guarantees – try to address volatility risk by increasing bond allocations and thereby lowering long-term expected returns in retirement



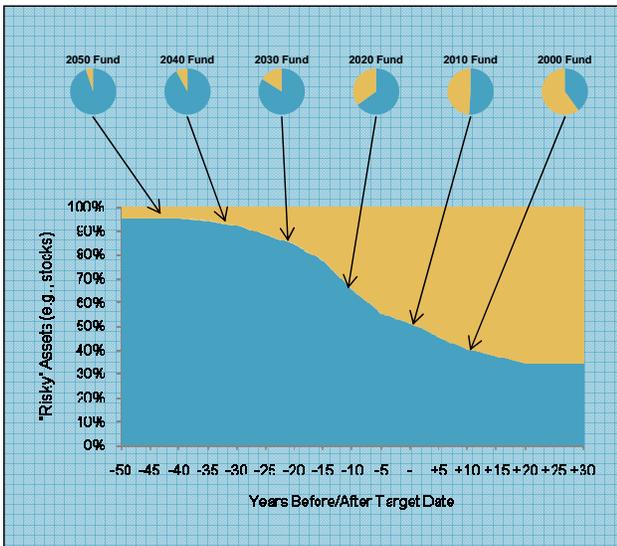
Note: Fund allocations assume the current year is 2009 or 2010

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How Guarantees Could Improve Target Date Funds' Risk/Return Trade-Offs

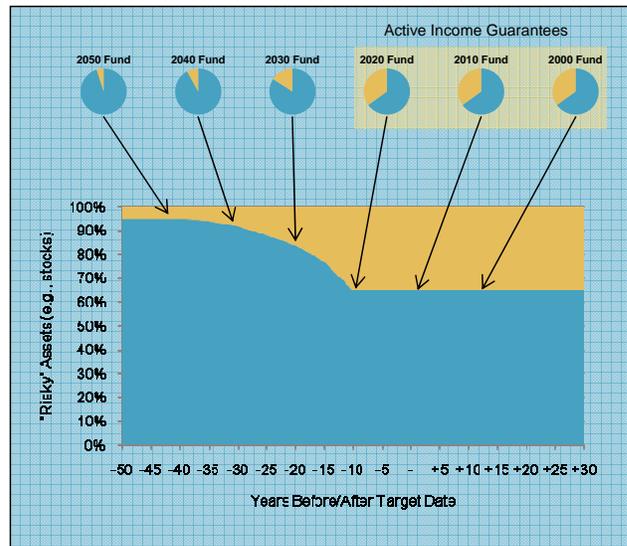
“Typical” Target Date Fund Family

Typical target date funds – without guarantees – try to address volatility risk by increasing bond allocations and thereby lowering long-term expected returns in retirement



“Improved” Glide Path with Guarantees

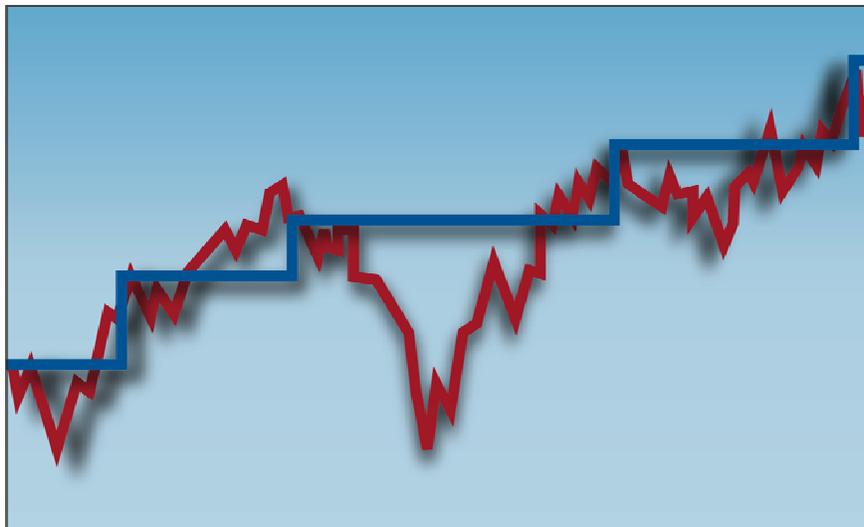
Since income guarantees address the “downside” of poor or volatile markets reducing retirement income, fund managers can employ asset allocations with higher long-term expected returns



Note: Fund allocations assume the current year is 2009 or 2010

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Establishing an “Income Base” Provides a Guaranteed Basis for Income



Guaranteed return of transfers and contributions is included in the Highest Birthday Value

■ **Highest Birthday Value (HBV)**

Guarantees potential to capture market upswings by comparing current Market Value against previous years. If higher, the Highest Birthday Value is reset.

■ **Market Value**

of the target date funds when participants start taking guaranteed withdrawals.

Stable Income Guaranteed, as Withdrawals from the Target Date Fund

Guaranteed lifetime withdrawals will be based on age:
4.25% beginning at age 55
5.00% beginning at age 65
5.75% beginning at age 70

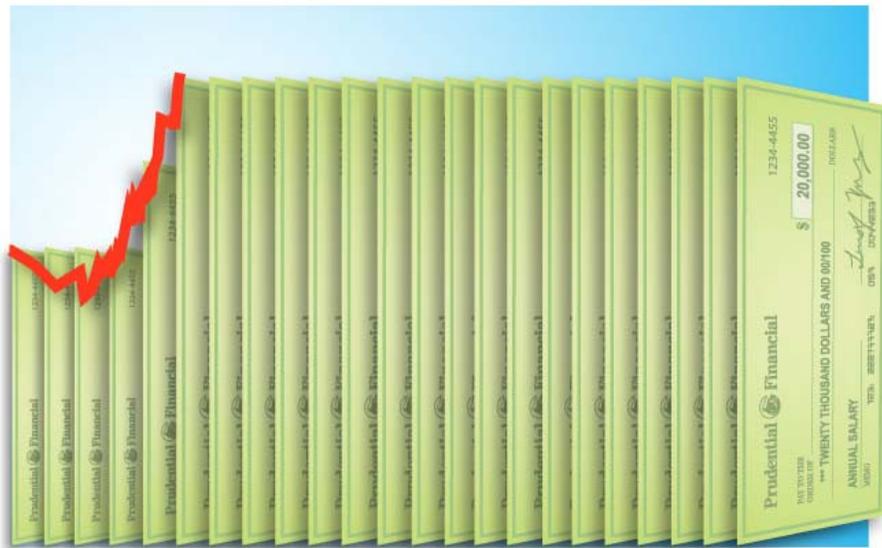


** If participants begin withdrawals from age 55 through age 64, their withdrawals will be based on a lower percentage of their Income Base. If participants begin withdrawals after age 70, their withdrawals will be based on a higher percentage of their Income Base.*

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Positive Market Performance Can Increase Annual Guaranteed Income

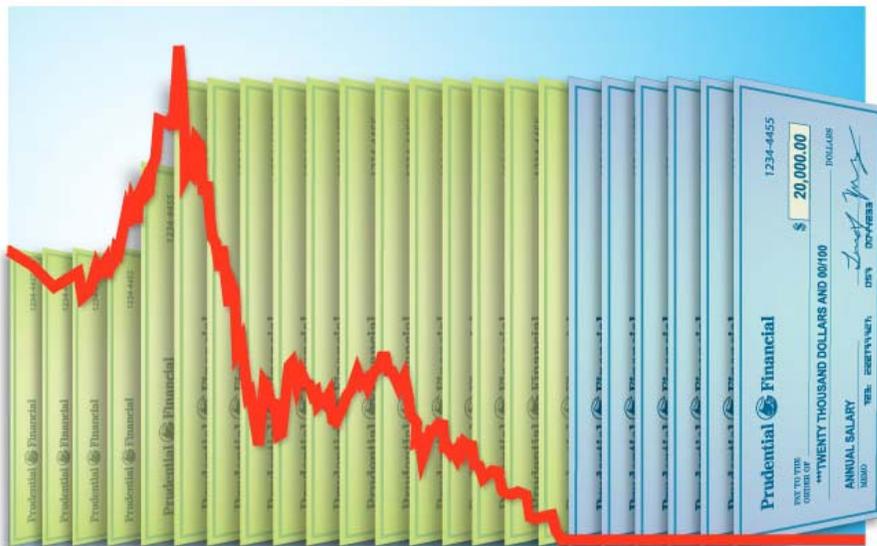
If the market value of the target date fund exceeds the Income Base on any of the participant's birthdays, the withdrawal amount will increase



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Lifetime Income, Guaranteed, Even if Withdrawals Exhaust Market Value

Even if investment performance **and** guaranteed withdrawals bring the market value to \$0, checks will continue and never decrease



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Additional Items to Consider

- **No annuitization: lifetime income does not require an irrevocable commitment**
- **Basic operation like any other plan investment option**
 - Invest by allocating contributions or transferring existing balances
 - Can take money out at any time by initiating a transfer or withdrawal
- **Ability to withdraw more or less than the Lifetime Annual Withdrawal Amount each year**
 - “No rollover minutes”: Untaken amounts do not carry over to future years
 - Excess Withdrawals reduce future Lifetime Annual Withdrawal Amounts proportionately
- **Optional spousal benefit**
- **Minimum distribution “friendliness”**
- **Plan sponsor “portability”**: Available on multiple record keeping platforms
- **Additional protection does come at an additional cost**
 - Cost = investment management fee + guarantee fee
 - Guarantee fees only apply when guarantees are “active”

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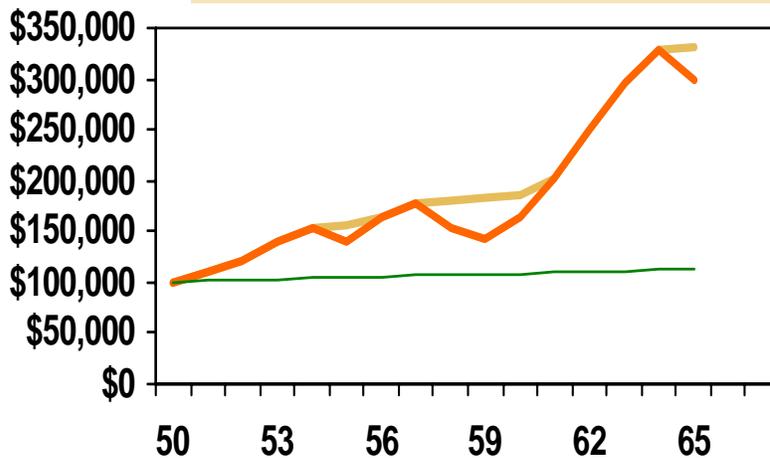
Numerical Examples



IncomeFlex Illustration A (Accumulation)

ASSUMPTIONS

Current Age:	50	Initial Transfer:	\$100,000
Retire Age/Status:	65 Single	Biweekly Contribution:	\$100
Market Condition: Up 7.56% (Accumulation) – Up 7.98% (Payout)			
Guarantee Fee: 100bp Management Fee: 63bp			



Values at Lock-In age 65:

Highest Birthday Value:
\$330,500
 IncomeFlex Market Value:
\$299,710
 Zero Return Market Value:
\$113,000

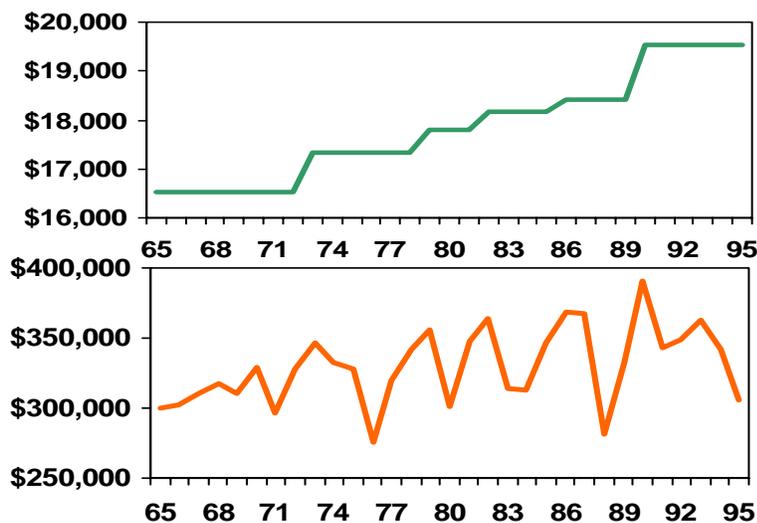
This is a hypothetical illustration of how IncomeFlex might work and is not meant to represent the performance of any specific investment option. For illustration purposes all numbers have been truncated. It is possible to lose money investing in securities.

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IncomeFlex Illustration A (Payout)

ASSUMPTIONS

Current Age: 50	Initial Transfer: \$100,000
Retire Age/Status: 65 Single	Biweekly Contribution: \$100
Market Condition: Up 7.56% (Accumulation) – Up 7.98% (Payout)	
Guarantee Fee: 100bp	Management Fee: 63bp



■ Lifetime Annual Withdrawal

Amt Initial: \$16,530
At 75: \$17,340
At 85: \$18,170
At 95: \$19,520

■ IncomeFlex Market Value

At Lock-In: \$299,710
At 75: \$327,850
At 85: \$346,190
At 95: \$306,070

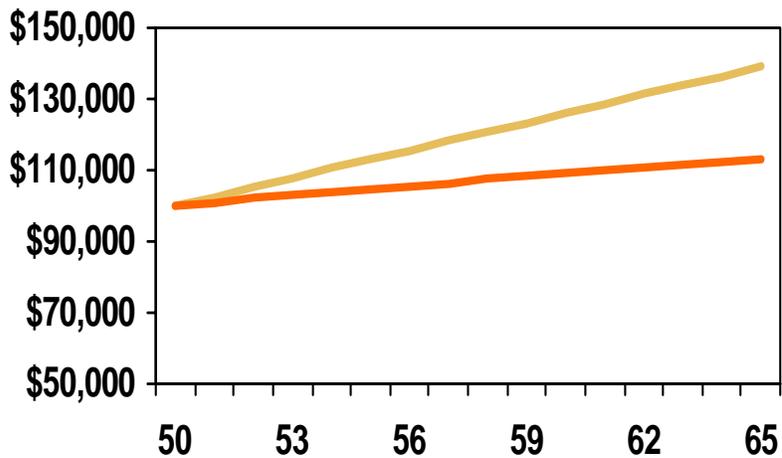
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IncomeFlex Illustration B (Accumulation)

ASSUMPTIONS

Current Age:	50	Initial Transfer:	\$100,000
Retire Age/Status:	65 Single	Biweekly Contribution:	\$100
Market Condition: Flat 0% Return (<i>Accumulation</i>)			
Flat 0% Return (<i>Payout</i>) Guarantee Fee: 100bp Management Fee: 63bp			



Values at Lock-In age 65:

Highest Birthday Value:
\$139,000
 IncomeFlex Market Value/ 0%
 return:
\$113,000

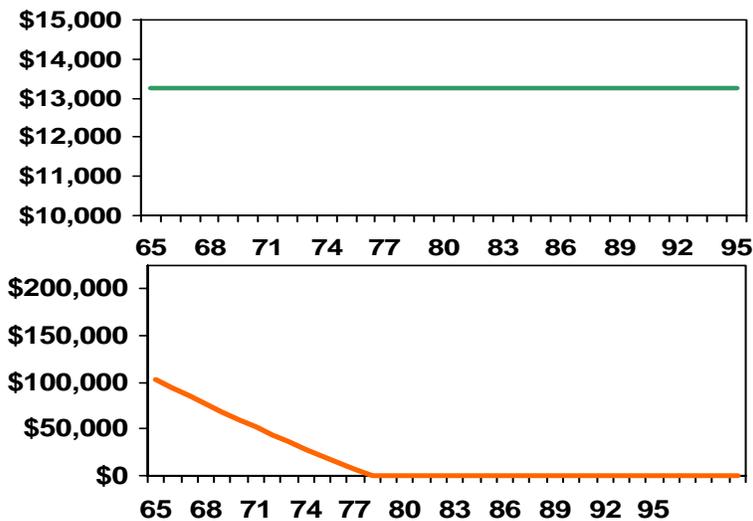
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IncomeFlex Illustration B (Payout)

ASSUMPTIONS

Current Age: 50 **Initial Transfer:** \$100,000
Retire Age/Status: 65 Single **Biweekly Contribution:** \$100
Market Condition: Flat 0% Return (*Accumulation*) – Flat 0% Return (*Payout*)
Guarantee Fee: 100bp **Management Fee:** 63bp



■	Lifetime Annual Withdrawal
	Amt Initial: \$6,950
	At 75: \$6,950
	At 85: \$6,950
	At 95: \$6,950
■	IncomeFlex Market Value
	At Lock-In: \$113,000
	At 75: \$28,300
	At 85: \$0
	At 95: \$0

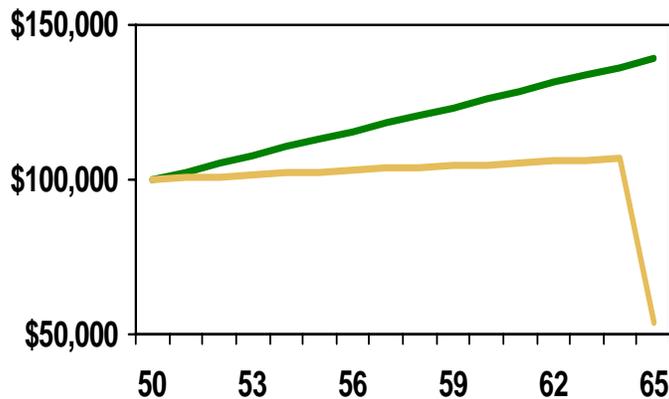
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IncomeFlex Illustration C (Accumulation)

ASSUMPTIONS

Current Age:	50	Initial Transfer:	\$100,000
Retire Age:	65	Biweekly Contribution:	\$100
Market Condition: Flat Down 50% year before lock in (<i>Accumulation</i>) – Flat (<i>Payout</i>)			
<i>(Payout) Guarantee Fee: 100bp Management Fee: 63bp</i>			



Values at Lock-In age 65

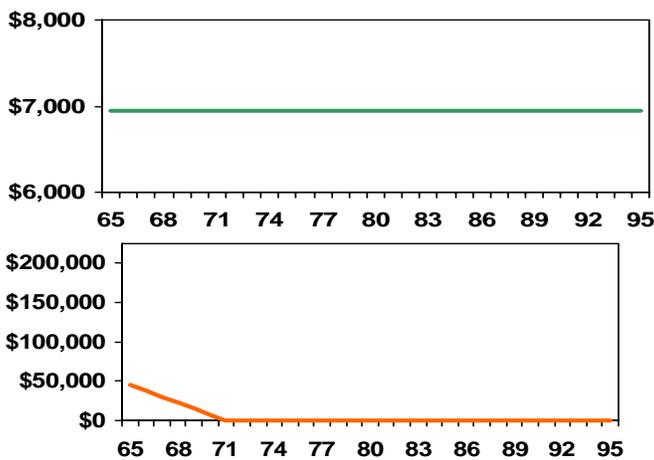
- Highest Birthday Value: **\$139,000**
- IncomeFlex Market Value: **\$53,515**

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IncomeFlex Illustration C (Payout)

ASSUMPTIONS

Current Age: 50 **Initial Transfer:** \$100,000
Retire Age: 65 **Biweekly Contribution:** \$100
Market Condition: Flat Down 50% year before lock in (*Accumulation*) – Flat (*Payout*)
(Payout) Guarantee Fee: 100bp Management Fee: 63bp



■ Lifetime Annual Withdrawal

Amt Initial: \$6,950
At 75: \$6,950
At 85: \$6,950
At 95: \$6,950

■ IncomeFlex Market Value

At Lock-In: \$53,515
At 75: \$0
At 85: \$0
At 95: \$0

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Guarantees are based on the claims-paying ability of the insurance company and are subject to certain limitations, terms and conditions. To maintain the IncomeFlex benefit, you must invest in one or more Prudential IncomeFlex Funds. Like all variable investments, these funds may lose value. Withdrawals in excess of the guaranteed lifetime income amount will reduce future guaranteed withdrawals proportionately.

Prudential IncomeFlex funds are investment options available under group variable annuity contracts issued by Prudential Retirement Insurance and Annuity Company (PRIAC). PRIAC does not provide any guarantee of the investment performance or return of contributions to those separate accounts. PRIAC's guarantee of certain withdrawals is supported by PRIAC's general account and is contingent on its claims paying ability. Guarantees are subject to certain limitations, terms, and conditions. You should consider the objectives, risks, charges, and expenses of the funds and guarantee features before purchasing this product. You should carefully review the Prudential IncomeFlex Important Considerations before purchasing this product. Product availability and terms may vary by jurisdiction. Subject to regulatory approvals. Contract form number GA-2020-TGWB-0805 or state variations thereof.

Prudential Retirement's group variable annuity contracts are issued by Prudential Retirement Insurance and Annuity Company (PRIAC), Hartford, CT, a Prudential Financial company.

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