Prudential's
Four Pillars of
Retirement Series

Prudential's Sixth Annual Workplace Report on Retirement Planning

The New Economic Reality and the Workplace Retirement Plan

Americans are reconsidering how they save for retirement, and see the need for simpler and more automatic savings plans

Prudential

January 2010

The shortcomings of today's defined contribution (DC) plans—which have emerged slowly over the last decade—were thrust into high relief by the 2008-2009 market collapse, which cost DC participants close to a trillion dollars in savings and forced millions to rethink when and how they might retire. In fact, the collapse shined a harsh light on Americans' longstanding, inadequate levels of retirement savings, their decision-making, and their focus on "a nest egg," as opposed to an adequate stream of retirement income.

With this as context, Prudential Retirement conducted a study to better understand how well American workers felt their retirement savings had weathered the economic storm, and also to look ahead and gauge interest in more innovative workplace plans that hold the promise of better outcomes. In short, do Americans think it is time to re-evaluate how we plan and save for retirement? How do they feel about fully automated plans, which might eliminate do-it-yourself investment management? Are they willing to trade off some control and personal decision-making responsibility in order to follow a predetermined "auto-pilot" savings approach? In a word, as you will see, the answer was a resounding "Yes!"

Perhaps the most striking finding in this Workplace Report, our sixth, was that 84% of Americans say the time is ripe for enhanced, redesigned workplace retirement plans. In fact, across the board, workers appear eager to embrace automated features. At Prudential, we take that as a clear mandate to "redefine retirement," so that once again workplace retirement plans can adequately and appropriately support the retirement dreams of millions of American workers.

We hope that you gain insights and benefit from the findings in this report, our latest glimpse into what's happening as millions of American workers struggle to create retirements that are safe and secure. We believe the study underscores the need for change, and we hope you join us on our journey to transform U.S. retirement.

Christine C. Marcks
President
Prudential Retirement

Summary

1. Americans do not feel ready for retirement.

- Half (51%) of American workers feel that they are "behind schedule" in their retirement savings goals; this is most pronounced among investors age 55-64 (66%).
- One in five respondents feels "very" confident that they will be able to save enough to retire when they want. Confidence decreases significantly with age—only 9% of investors age 45-54 are very confident.
- Two-thirds of respondents over the age of 45 believe that they may need to work longer and retire later than expected in order to afford retirement (66%).

2. Investors are ready for a new way to save for retirement.

- The vast majority of respondents (84%) feel that in light of the recent financial crisis there is a need to re-evaluate how Americans plan and save for retirement, including the creation of new and improved workplace retirement savings plans.
- Only 25% are very confident in their ability to make good decisions about their workplace retirement savings plan.
- Seven in 10 respondents feel that retirement plan decisions are complicated. This impression is greatest among those who feel that they are "behind schedule" in their retirement savings goals (77%) and who lack confidence in their ability to make good decisions about their workplace retirement savings plan (88%)—suggesting that decision complexity may be a driver of poor retirement preparedness.
- Half (48%) of respondents seek guidance from employers to help make decisions about their workplace retirement savings plans, yet 39% think plan materials and resources actually make it hard to make good decisions!

3. Investors think a fully automated workplace retirement savings plan could have helped them better weather the 2008-2009 financial crisis.

- Roughly 70% of respondents would be pleased if their employers were to have automatically enrolled them in the company's retirement savings plan. And 60% would be pleased if their employers provided a fully automated retirement savings plan.
- In fact, more than half (54%) of respondents believe that they would have better survived the financial crisis if their employers offered savings plans designed with the entire suite of automatic features.
- 78% feel that even one automatic feature could have had a positive impact.

4. Being on "auto-pilot" is perceived as a new and improved way to save for retirement.

- A vast majority of respondents (85%) feel that a fully automated workplace retirement plan represents a new and different approach to save for retirement.
- 65% recognize an automatic approach as "an improved and modernized" workplace retirement savings plan.
- Four in 10 respondents feel that, with a fully automated savings plan, they would need less education and materials to get them comfortable and investing regularly with the plan.

The New Economic Reality and the Workplace Retirement Plan

Research Objectives

The economic crisis of 2008-2009 has created a retirement crisis in America. More than half of American workers say they are behind in saving for retirement and two-thirds of near-retirees say they'll have to postpone retirement. This study looks at how Americans are reconsidering the road ahead. Specifically, the study:

1. Reveals how American workers feel about their retirement preparedness
2. Explores how workers perceive today's workplace retirement plans
3. Evaluates the reactions of workers to a new generation of workplace retirement plans

About the Study

Prudential's sixth "Workplace Report on Retirement Planning" polled 1,010 American employees in an online survey during October 2009.

The study's participants are a national random sample of heads of households selected from panelists in the TNS Online Access Panel.

Each respondent met the following criteria:

- Age 21-64
- Currently employed and working full-time
- Primary or joint decision-maker on household financial decisions
- Employer offers a 401(k), 403(b), or 457 defined contribution retirement savings plan

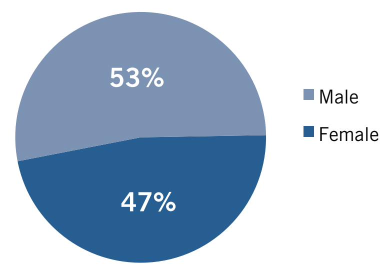
The study has a margin of error of ±3.1% at the 95% confidence level.

Profile of Study Participants

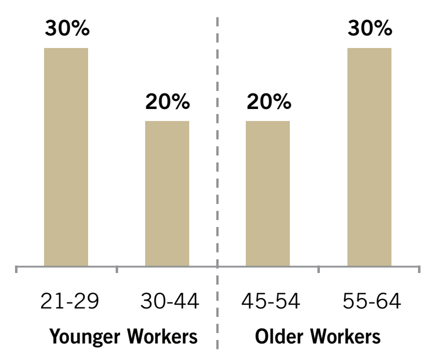
The total random sample focuses on Americans throughout the employment life cycle, from those just beginning to save for retirement through those preparing to retire within the next year.

The data throughout this study are segmented by younger (age 21-44) and older (age 45-64) workers.

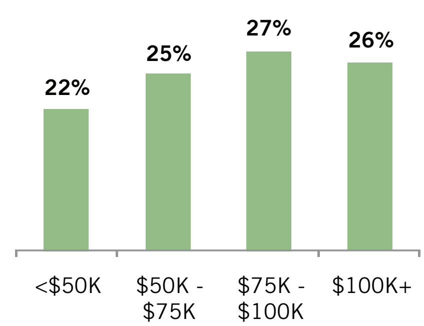
GENDER



AGE



HOUSEHOLD INCOME



Americans struggle to meet retirement savings goals

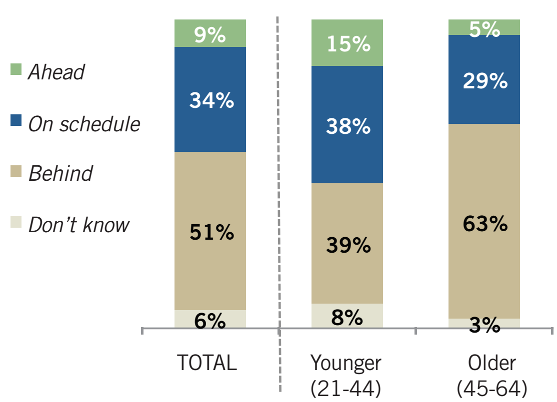
One in two workers reports being behind schedule in their retirement savings goals

- The U.S. and world economies were thrown into turmoil over the past 18 months due to the mortgage and credit crises.
- At the worst of crisis, Americans saw trillions of dollars and years of savings simply vanish from their retirement accounts, including DC plans, IRAs, and annuities. Not surprisingly, more than half of American workers are behind in their retirement savings goals (51%). Another 6% say they can't even assess their situation.
- A bit better positioned with time on their side, only four in 10 younger employees feel they are behind in their retirement savings goals.
- The hardest-hit segment is the pre-retirees, who felt the impact of market losses on a lifetime of accumulation—two-thirds of older workers feel that they are not as prepared (or don't know if they're as prepared) as they need to be for retirement. As well, 65% believe that they do not have enough savings to retire and say they need to work longer than planned to better afford retirement.

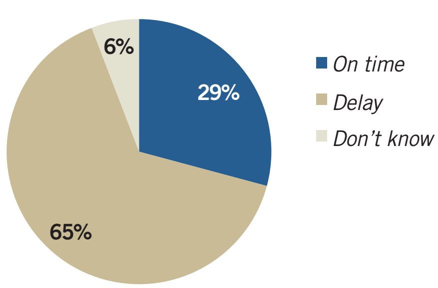
More than eight in 10 Americans lack confidence in their ability to save enough

- With the concern over Social Security and decreasing availability of traditional corporate pensions, many Americans realize that it is up to them to save enough for a comfortable retirement—and for those who didn't already recognize this personal responsibility, the market downturn served as a serious wake-up call.
- For Americans age 21-54, there is still an opportunity to make up for losses through active savings. A mere 19% of this total group, however, are very confident in their ability to save enough to retire when they want, with a comfortable lifestyle.
- Not surprisingly, confidence declines dramatically as age increases: despite higher incomes, workers simply don't have enough time to make up the losses they have incurred.

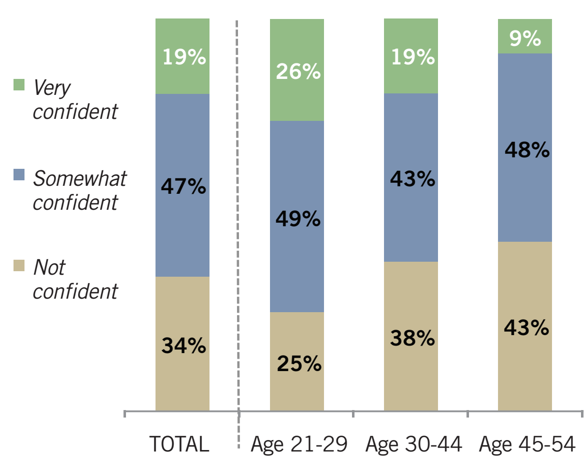
PROGRESS IN RETIREMENT SAVINGS



EXPECTATION FOR RETIRING ON TIME
Among Americans age 45-64



CONFIDENCE IN ABILITY TO SAVE ENOUGH FOR COMFORTABLE RETIREMENT



Employees grapple with gaps in today's workplace retirement plans

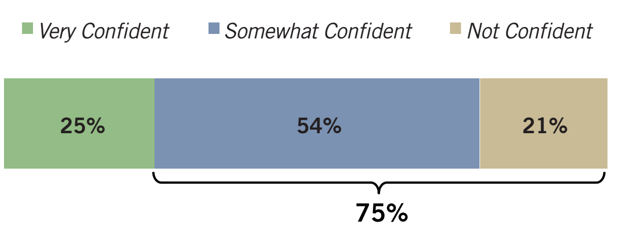
Plan participants find it difficult to make retirement plan decisions

- Compounding the issues of market losses and simply not saving enough is the challenge that Americans face in making the right decisions about their workplace retirement plan.
- Perhaps based on their recent experience with the financial crisis and its impact on their assets, just 25% of Americans are "very" confident in their ability to make good decisions about their workplace retirement plans.
- In fact, 70% of workers find the decisions that they need to make about their workplace retirement plans to be complicated.
- Interestingly, older, more experienced employees are not any more confident nor do they find such decisions any easier than younger, less-experienced employees do (not charted).

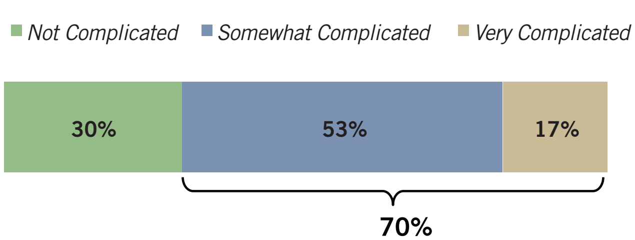
For many, plan materials, tools, and resources don't make workplace plan decisions easier

- In a traditional workplace retirement plan, an employer acts as the plan sponsor and has fiduciary responsibilities. To fulfill these responsibilities, employers typically provide access to guides, manuals, tools, and other resources that have been developed by the plan's service provider.
- The materials are designed to help employees understand the plan design and investment options, and to help employees make informed savings decisions. But are these materials fulfilling their objectives?
- More than four in 10 workers feel the materials are not of the right length and detail, and 37% feel that the guides, tools, and resources are hard to understand.
- Most critically, almost 40% feel that plan materials actually make it harder to make good decisions about their workplace retirement savings plan!

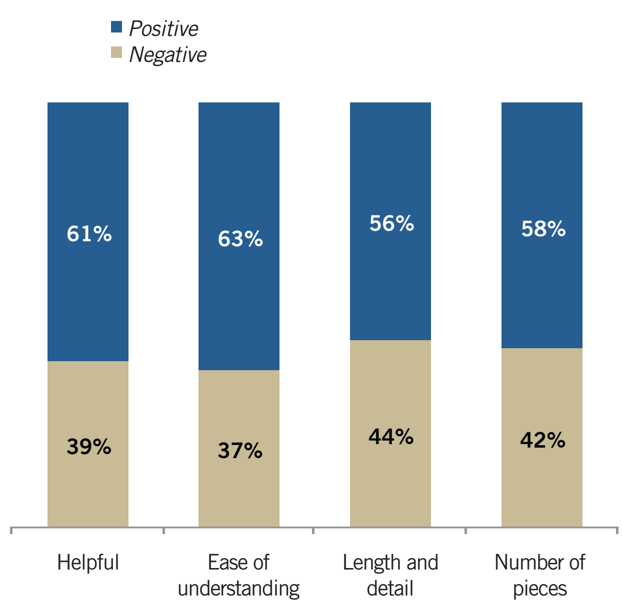
CONFIDENCE IN ABILITY TO MAKE GOOD DECISIONS ABOUT WORKPLACE RETIREMENT PLANS
Based on Total Respondents



VIEW ON COMPLEXITY OF WORKPLACE RETIREMENT PLANS
Based on Total Respondents



IMPRESSION OF PLAN & EDUCATION MATERIALS
Based on Total Respondents



More than eight in 10 Americans say "it is time" for new and improved workplace retirement plans

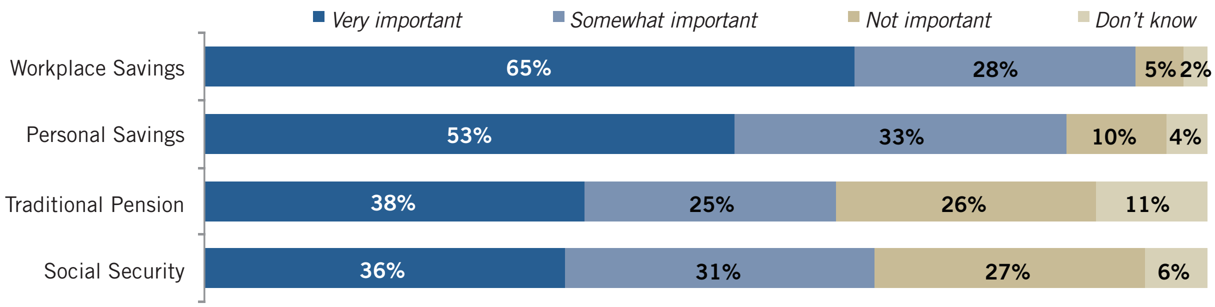
Workplace savings are key to retirement success

- Americans recognize now more than ever that workplace retirement plans are critical in helping to build their savings. In fact, 65% believe that savings from workplace plans will be a "very" important source of income for retirement—with a full 93% saying that workplace savings will play an important role in funding their retirement.
- Personal savings are almost equally important to workplace savings. Traditional pensions are less important overall, because many employees are simply not covered. When a pension is available, its importance for income is very high (89%).
- Today only 36% of Americans believe that Social Security will be a very important source of income in retirement.
- These data points are consistent across all age segments, with the older population relying slightly more on pensions.

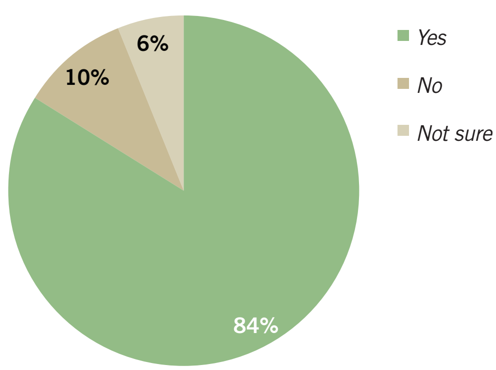
Americans young and old think it's time to re-evaluate how they plan and save for retirement

- Be it the common struggles Americans face in focusing and making the right decisions about saving through workplace retirement plans, or be it the recent financial crisis that has brought to light some of the limitations of traditional workplace plan design, a resounding cry has been heard across the nation: while workplace plans were once a good start, today it is not good enough.
- Given the great importance respondents place on workplace retirement plans and the varying degrees of success and experience, it is no wonder that 84% of American workers want an enhanced workplace retirement plan—the next generation.
- Whether among new employees just starting their careers, or pre-retirees hoping to retire as soon as possible, consensus is "yes," it is time to re-evaluate how Americans save and plan for retirement, and time to create new and improved workplace retirement plans.

IMPORTANCE OF RETIREMENT INCOME SOURCES
Among Total Respondents



TIME TO CREATE NEW AND IMPROVED WORKPLACE RETIREMENT PLANS?
Among Total Respondents

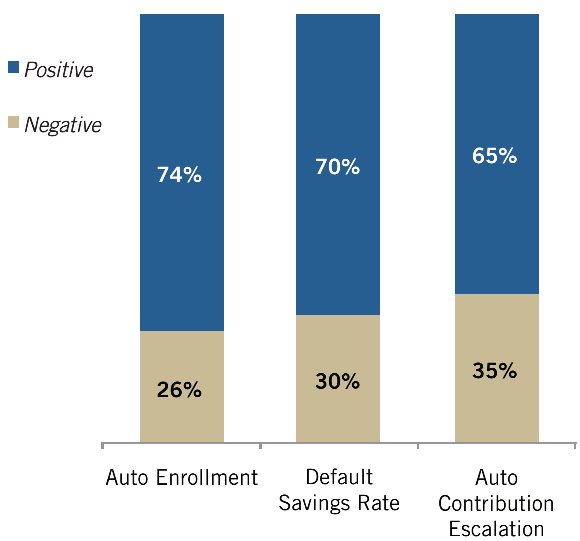


Automatic features in workplace retirement plans get an overwhelmingly positive response from American workers

Plan participants want an easier way to get started

- Workplace retirement plans often place an up-front hurdle to plan participation by requiring employees to actively enroll in the plan.
- Minor concerns can stop workers from making a swift and informed decision:
  - They may not be familiar with investing.
  - The have difficulty making choices.
  - They are more focused on getting started on the job.
  - They forget to start the program, if they don't do it as soon as they are eligible.
- Given the choice, 74% of American workers would rather skip this complicated and labor-intensive process and be automatically enrolled in a workplace retirement savings plan.

RECEPTIVITY TO AUTOMATIC FEATURES
Among Total Respondents



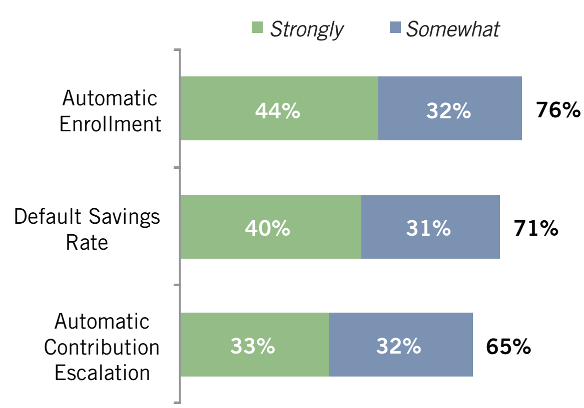
Americans want to save the right amount, but don't want to have to figure it out and do it themselves

- As part of enrollment, participants in a typical plan must decide what percent of their salary they should initially contribute to the plan. Over time, plan participants also need to assess their savings progress, re-evaluate their contribution rate, and manually make adjustments as necessary.
- This do-it-yourself approach gives participants more control over their savings, but also adds complexity to the retirement savings process and often causes workers to save less than they should.
- Given their personal experiences with workplace retirement plans, 70% of American workers would be satisfied defaulting to a pre-determined initial savings rate than have to make the decision themselves.
- Furthermore, 65% would value automatic increases in their retirement plan savings rate at key dates, knowing they can change the savings rate if needed.

Basic automatic features endorsed by older workers

- American workers aged 45 to 64 are only slightly more likely than those aged 25 to 44 to be receptive to automatic enrollment and contribution features. Even after years of experience "doing it themselves," the majority of older workers would appreciate more convenient and routine solutions and would recommend this approach for today's younger workers.

OLDER WORKERS RECOMMEND THE AUTOMATIC APPROACH FOR TODAY'S YOUNGER WORKERS
Among Americans age 45-64



Workers see automatic asset allocation and income guarantees as significant improvements

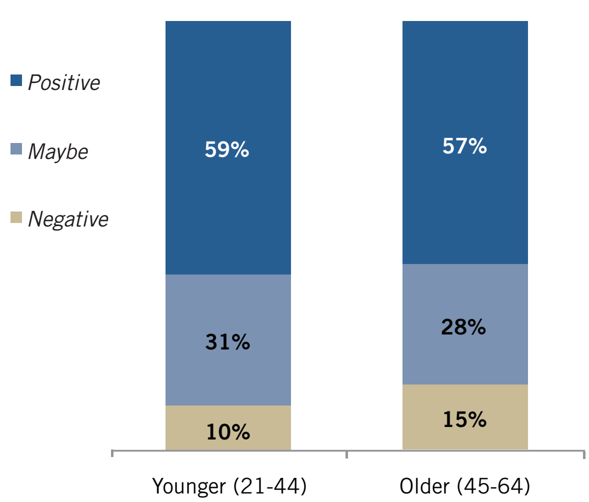
Deciding how to invest and adjust over time presents a challenge to plan participants

- The recent financial crisis has highlighted the challenges with trying to select the right mix, or asset allocation, of investments for the long-term.
- Employees who are enrolled in a typical workplace retirement plan are responsible for choosing the funds in which to invest, and deciding how to allocate their current and future contributions across those funds—and, as revealed earlier, many find these decisions complicated.
- Close to six in 10 Americans would prefer an automatic approach to asset allocation in their workplace retirement plan, rather than trying to manage their investments themselves.
- In addition, another roughly three in 10 see good potential in such a program and were open to learning more and seeing how it could benefit them.

More than two-thirds want help with the final critical step—preparing to take retirement income

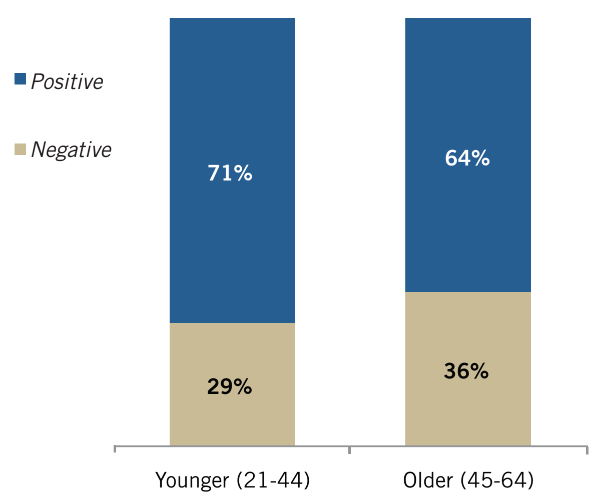
- When employees retire, they must decide what to do with their workplace retirement savings. Evaluating the options is a difficult process for most individuals.
- Some end up taking a lump-sum distribution. Others set up a systematic withdrawal program or purchase an annuity. Before making a decision, individuals need to understand the potential benefits and risks of each approach. Employers are rarely in a position to provide guidance.
- Rather than forcing an all-or-nothing choice on employees just as they are making one of the largest transitions of their life from "employed" to "retired," a workplace plan can be designed to include a guaranteed retirement income program within the plan itself.
- When presented with an automatic approach in their workplace retirement plan to build a guaranteed, lifelong stream of income, and knowing they could always opt out, two-thirds of Americans found it appealing.
- In fact, younger employees, who have lower expectations for Social Security and traditional pensions, are even more favorably inclined than older employees toward this approach.

RECEPTIVITY TO AUTO ASSET ALLOCATION



RECEPTIVITY TO AUTO INCOME GUARANTEE

Among Total Respondents



Fully automated plans are welcomed as a better approach for retirement savings

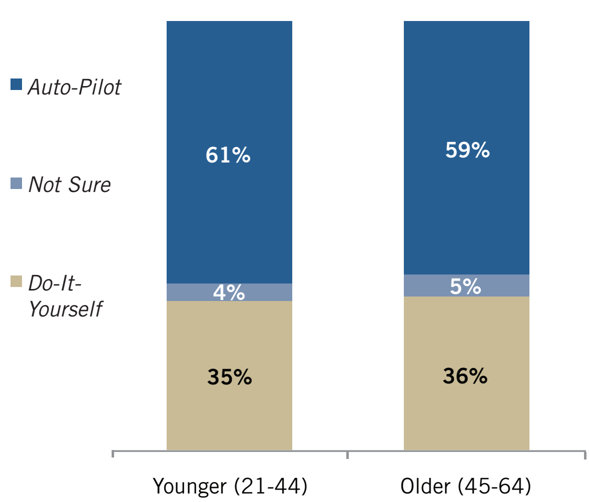
Individually and holistically, Americans value the five essential components of an automatic workplace retirement plan

- When evaluated separately, the majority of employees saw the benefits of all five automatic features: enrollment, initial contribution rate, contribution escalation, asset allocation, and guaranteed retirement income.
- When used collectively, these five features transform the workplace retirement plan from a do-it-yourself, hit-or-miss process into a streamlined plan that operates on "auto-pilot" for the benefit of employees.
- American workers recognize these benefits. Six in 10 younger employees, who are trying to figure out how they'll spend the next 30 to 40 years saving for retirement, feel that a fully automated workplace plan—being on "auto-pilot"—will be better for them than a traditional, "do-it-yourself" approach.
- Among more experienced employees who spent most of their employment careers without the benefits of these automatic features, 59% feel they would have been better off today if their employers had used the entire package of auto-pilot features. Furthermore, two-thirds would recommend the auto-pilot approach to younger workers (not charted).

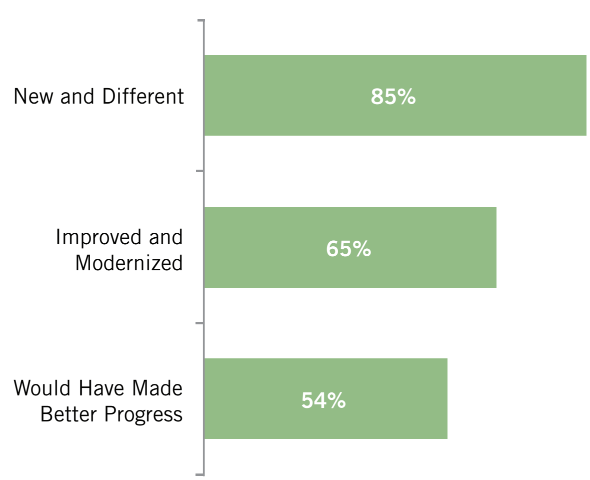
Most employees embrace workplace retirement plans that incorporate automatic features

- The five components of the auto-pilot approach are individual features that are not necessarily new, such as automatic enrollment and contribution escalation. So is the auto-pilot approach as a whole greater than the sum of its parts?
- The answer is a resounding "yes." Overall, 85% of Americans see this fully automated workplace retirement plan as being new and different from what is available today.
- In fact, 65% perceive this combined auto-pilot approach as an improved and modernized savings plan. With this fully automated savings approach, 40% of respondents feel they would need less education and materials to get them comfortable and investing regularly with the plan (not charted).
- Furthermore, when asked to reflect on how the financial crisis affected their retirement savings over the past year, more than half of Americans feel that they would have made better progress toward their retirement savings goals had their plan sponsor been using all five automatic features. This is consistent for both younger and older, more experienced workers.

PREFERRED RETIREMENT SAVINGS PLAN DESIGN



BELIEFS ABOUT A FULLY AUTOMATED PLAN
Among Total Respondents



In their own words: American workers are ready to redefine retirement

We asked our survey respondents to share how they feel about workplace retirement plans and their reactions and ideas for improving these plans. Here's some of what they said.

Please help. It is very difficult for me to know what I should contribute and how I should invest it.
Female, age 30-44

Clear up the jargon and make these plans easier for the everyday person to understand.
Male, age 21-29

Don't just throw a bunch of pamphlets at us and expect us to sift through it all. Make it easy to figure out.
Female, age 45-54

Increase contribution limits to defined contribution plans.
Male, age 30-44

Automatic investment is the way to go. I thought I had many years and didn't need to worry about it. I wish that I had been contributing to a plan from my early 20s and I would have a MUCH bigger nest egg.
Female, age 45-54

Auto plans would be a great tool for the younger, newer employees who are just getting started.
Male, age 30-44

I know so little about personal finances, such as investments and retirement plans, and despite the fact that I've attempted to do a lot of research on my own, I'm still very confused. My employer gave me some paperwork, but no guidance. I am not even sure how to change my plan if I wanted to, in fact I am not even sure exactly WHAT my plan is right now! … I love the auto-pilot idea: it would give me a chance to figure out the system, but I would want to be sure that I could tweak things myself once I got the hang of things.
Female, age 21-29

We need guidance as to which funds are best to invest in at various points in our lives. Having an employer resource available would be a huge bonus.
Female, age 45-54

Employers' third-party vendors need to help employees with asset allocations. Actually make suggestions. For me that is the hardest thing to do.
Male, age 45-54

Investing can be confusing to the average American. It's intangible, and it's scary to put our hard-earned money into a system that we don't clearly understand.
Female, age 30-44

A lot of people do not contribute because they simply don't understand the process or are nervous about their 'right now' financial situation. If they were better educated, or the plan was put in place automatically for them, there is a much better chance that the number of people that contribute would increase.
Female, age 21-29

Auto-pilot! Try to protect people from their worst investment enemy: themselves.
Male, age 30-44

Make it mandatory—especially for young workers. They have the most time on their side to see investments grow, yet they almost universally choose to not invest. I did the same thing. I wish someone had forced me to save.
Male, age 55-64

Make it as simple as possible for employees.
Male, age 55-64

Prudential's Four Pillars of Retirement

The Four Pillars of Retirement represent the foundation of retirement security today, from Social Security to the choices made in retirement. Prudential uses these pillars as a framework for research reports, press releases and other information about the retirement issues and challenges facing Americans today.

SOCIAL SECURITY

EMPLOYMENT-BASED PLANS

PERSONAL SAVINGS

RETIREMENT CHOICES

Prudential