

Prudential Financial's Fourth Annual Workplace Report on Retirement Planning

How Prepared Are America's Older Workers to Generate a Retirement "Paycheck"?



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Skandia**

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Growing and Protecting Your Wealth®

Introduction

Over the past two decades, research has shown that Americans have increasingly focused on personal savings as a key component of retirement planning, primarily through their employer-sponsored retirement plans.

This study indicates that workers closest to retirement, however, have not focused on how to translate their savings into a stream of regular income (a retirement “paycheck”) during their post-employment years. In fact, most workers over 55 simply do not understand the critical tradeoff between a retiree’s compelling need for regular, guaranteed income and the pre-retiree’s natural inclination to hang on to as much of his/her “nest egg” as possible. Unfortunately, one cannot “have your nest egg and live off it, too.” But, as this survey demonstrates, this is a reality that few Americans approaching retirement truly appreciate.

Prudential Financial is committed to educating Americans on both accumulating and effectively managing their retirement assets, and the company is resolute about helping Americans fully enjoy their retirements by providing the solutions to both “grow” and “protect” their wealth.

“Over the next two decades, more Americans will be approaching retirement than at any point in our history. Furthermore, the responsibility for securing a comfortable retirement continues to shift from the government and employers to the individual. These changes demand a new and pragmatic look at how Americans are preparing for retirement. We at Prudential recognize the growing need for financial products and services that help Americans plan for and generate retirement income, and we view this goal as a natural extension of our ‘grow and protect’ strategy.”

—John Strangfeld, Vice Chairman, Prudential Financial

“The focus of Americans today continues to be on the accumulation of retirement assets, not how to create a ‘paycheck’ during retirement so that they can live comfortably in their golden years. At Prudential, we believe this research confirms that more Americans need a better understanding of how to create and manage a stream of income in retirement to truly achieve the fulfillment of their financial goals.”

—John Kim, President, Prudential Retirement

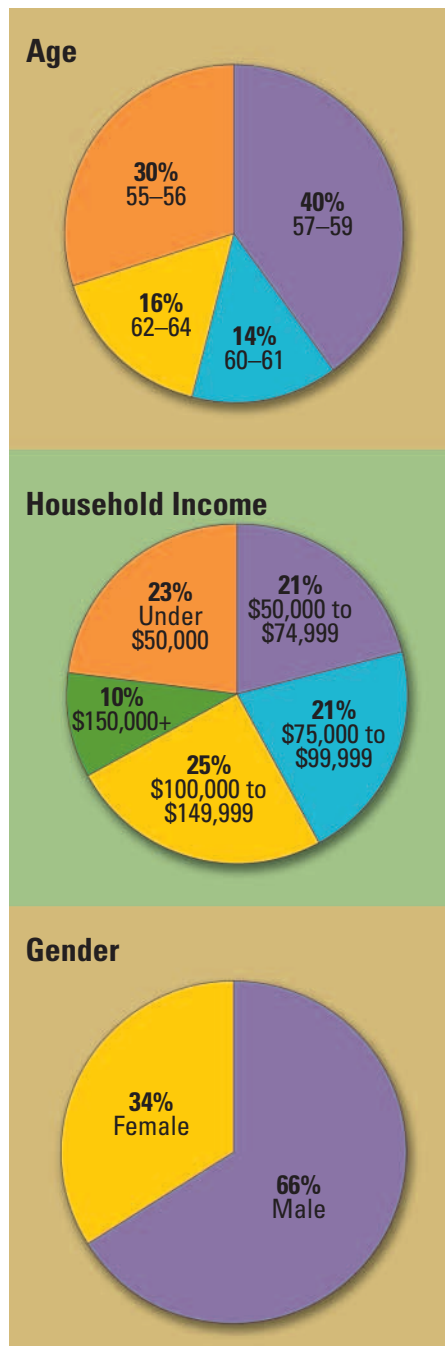
“The insights gained from this survey demonstrate that near-retirees need much better education and information on the strategies and options available to them as they prepare for retirement. Today there are a number of innovative, intelligent solutions that guarantee lifetime income and allow retirees to maintain full control of their retirement savings, which should be very good news for all.”

—David Odenath, President, Prudential Annuities

Please take the time to learn from this study and, more importantly, take action. For more retirement information, visit www.prudential.com.

Older Workers (“Near-Retirees”) Face the Ultimate Retirement Challenge: Generating “Paychecks” in Retirement

Profile of Study Participants



As a generation of Americans inch ever closer to retirement age, they are taking on greater personal responsibility for their own retirement security.

Americans nearing retirement have clear goals—they want to have a stream of retirement income to live comfortably on, and they want to maintain financial independence and avoid becoming a potential burden to others. Yet these near-retirees are neither sufficiently informed nor prepared to generate a retirement “paycheck” for themselves, and therefore their outlook for achieving their most cherished retirement goals is shrouded in uncertainty. These are the results of a study undertaken among a sample of older workers nearing retirement.

About the Study

Prudential Financial’s fourth annual “Workplace Report on Retirement Planning” study on retirement issues among near-retirees polled 1,023 full-time employed Americans aged 55 to 64 about their retirement knowledge, goals, actions, and plans. The online survey was administered between October 27 and November 4, 2004. The margin of error is $\pm 2.9\%$ at the 95% confidence level.

The study’s participants are a national sample of heads of households who take the lead for retirement planning, selected from panelists in the TNS Online Access Panel. In addition, all participants are enrolled in employer-sponsored “defined contribution” retirement plans, such as 401(k)s.

Having a Regular Retirement “Paycheck” Is Paramount, But Few Are Prepared to Begin Generating Their Own

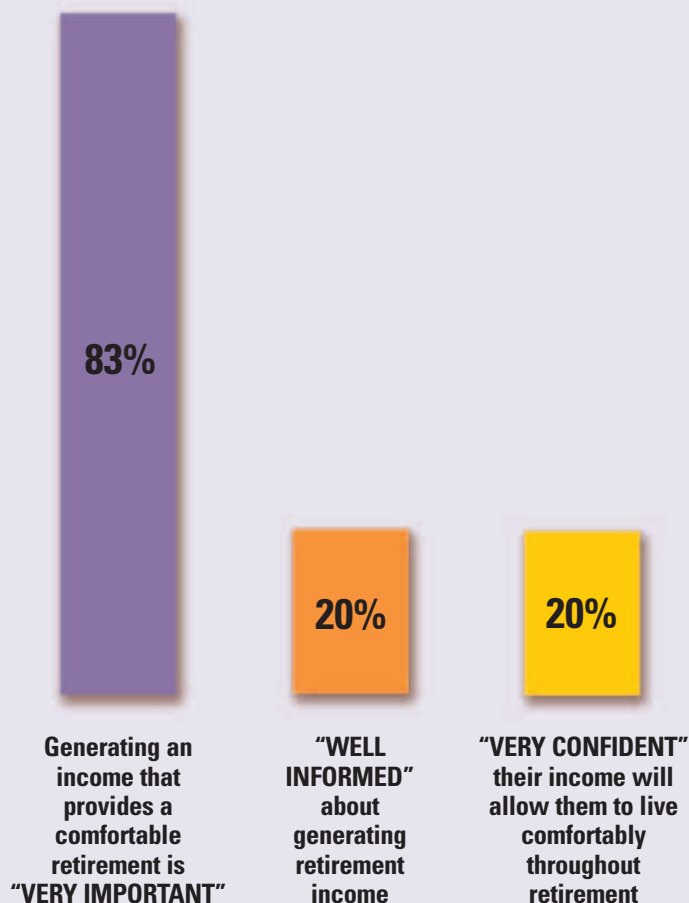
Creating a retirement “paycheck” that lasts throughout retirement is almost the universal goal among those approaching retirement.

With retirement around the corner, however, and just one in five feeling “well informed” on how to generate retirement “paychecks,” most near-retirees today are clearly unprepared for the important task of securing a guaranteed stream of retirement income.

Even more alarmingly, certain subgroups of near-retirees—women; those who are single, divorced or widowed; those without a traditional pension; or those with relatively lower income or savings—feel even less informed.

As a result of this lack of preparation, just 20% of near-retirees feel “very confident” that they will achieve one of their most cherished goals—a guaranteed income during retirement.

% Near-Retirees Who Feel...



Too Many Remain Focused on Growing Their “Nest Eggs” Instead of Income Planning

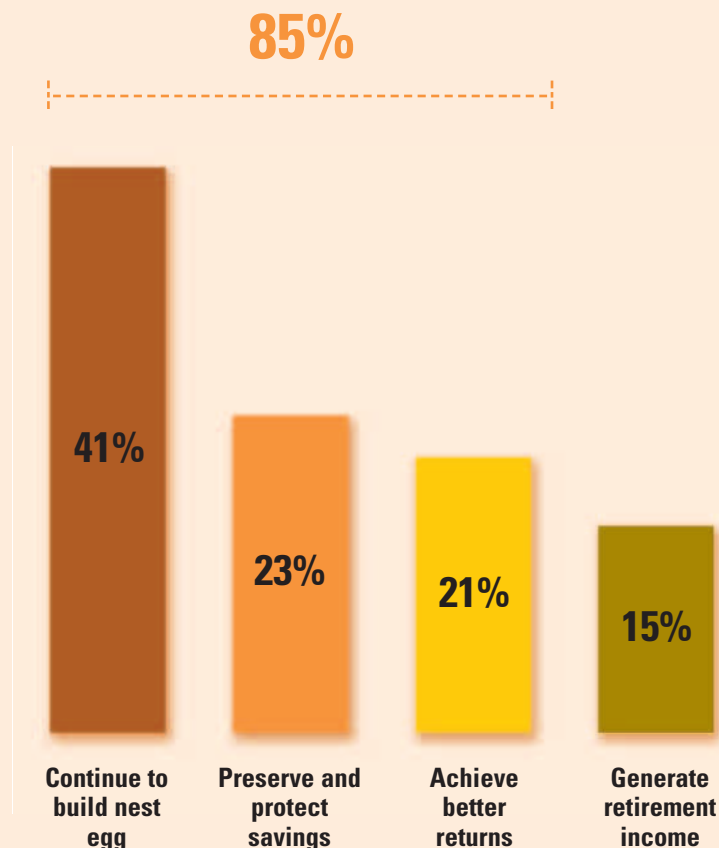
Most Americans approaching retirement have not begun to ready themselves for the transition to retirement, clearly one of the most significant changes that will take place in their lifetime.

As their years of employment wind down, the great majority of near-retirees are still focused on “asset accumulation.” Over six in ten are looking to increase assets by saving more or achieving better returns, and nearly one in four hope to preserve what they have.

While asset accumulation is an important goal, few near-retirees are preparing for “asset distribution,” which is the next phase of the retirement planning cycle. Just 15% say they have shifted their focus away from the nest egg to how best to generate a stream of income during retirement.

The neglect of retirement-income generation is common across all the subgroups of near-retirees—whether measured by age, gender, marital status, education, household income, or level of retirement savings.

Near-Retirees’ Most Important Focus At Present Time



With Retirement Just Around the Corner, Many Are Still Guessing How Big a “Paycheck” They Might Get

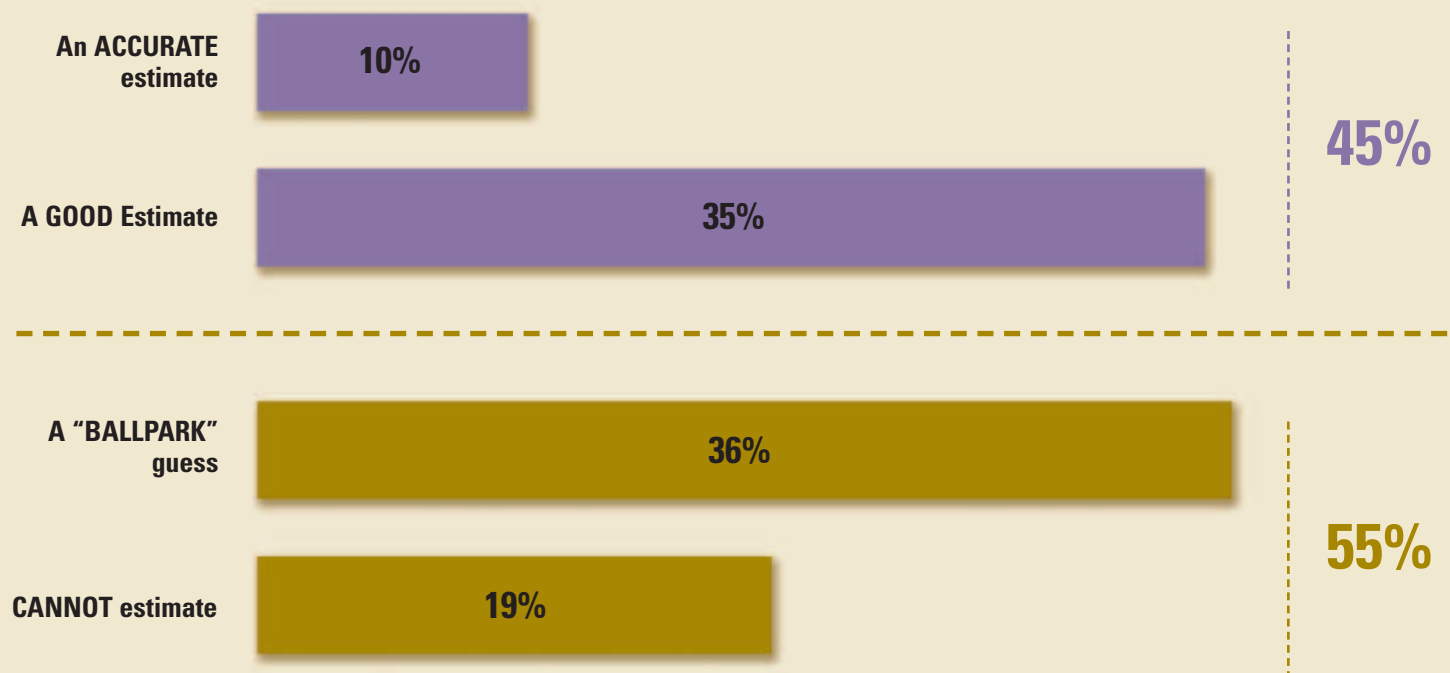
When Americans in their late 50s or early 60s were asked to calculate how much retirement income they could generate, very few felt able to provide an accurate estimate.

The majority are either guessing how much income they would have, or, even worse, simply do not have any idea of how much income they will be able to generate for themselves during retirement.

Unfortunately, near-retirees cannot afford to ignore the retirement income issue—there is too much at stake. Procrastination is risky, as the options to correct a miscalculation or shortfall are simply so much more limited once retirement nears. For today’s near-retirees, the time to act and prepare is now.

Ability to Estimate Retirement Income

% Near-Retirees who can calculate...



Though Older Workers Understand Their Responsibilities, Most Have No Detailed Retirement Plans

Near-retirees know where the buck stops on retirement—they understand that they must take personal responsibility for securing a comfortable retirement and not leave retirement to chance.

And yet, a mere 7% of near-retirees have formal, written retirement plans to help them identify and manage financial issues during retirement: generating income, identifying expenses, and effectively utilizing savings.

Considering that our respondents are in their late 50s and early 60s, well-educated (51% have a college degree or more), and with above-average household income (56% are earning more than \$75,000), it is alarming how little retirement planning they have done. Without a detailed plan, near-retirees are leaving their retirements to chance.

% Near-Retirees Who Agree...

A successful retirement depends on my ability to plan well and put my financial resources to wise use

97%

I cannot afford to leave my retirement to chance

97%

Use of Comprehensive Retirement Plan

% Near-Retirees who...

Have a formal, written plan

7%

Have an informal plan

43%

Have no plan, but will create one

18%

Have no plans whatsoever

32%

Rigorous Planning for Retirement Income Has Not Been Done by Most Near-Retirees

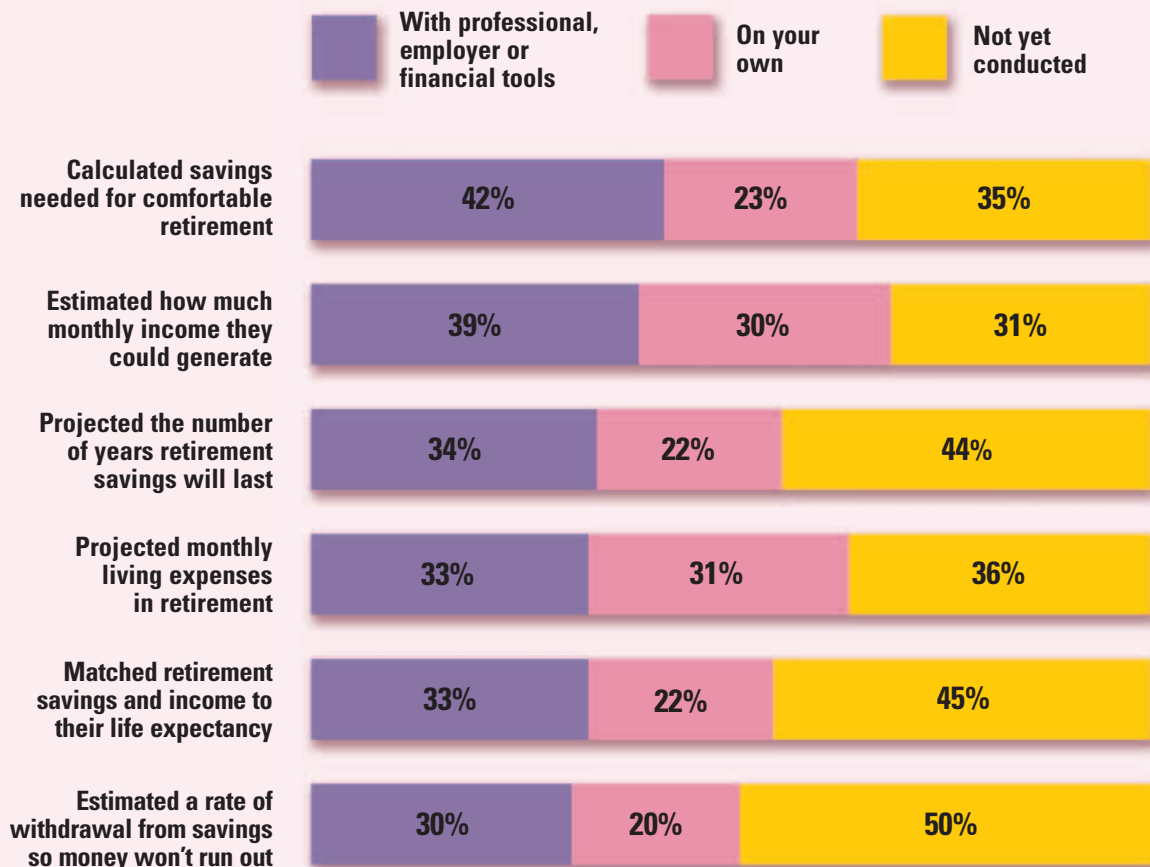
Good planning must be detailed. When planning a family vacation, for example, one needs to consider and fund transportation, hotel reservations, sightseeing itinerary, meals, and entertainment activities.

Good retirement planning, too, involves rigorous exercises for projecting retirement income and expenses, and for generating a sustainable and sufficient stream of income. Many near-retirees have not conducted these planning activities.

When they did try, too many approached the issue haphazardly, without help from employers, professionals, or retirement planning tools.

Procrastination is a significant hindrance. Near-retirees in their 50s are much less likely to conduct these exercises than near-retirees in their 60s—it seems some near-retirees might be waiting to hit the big “Six O” to begin serious planning.

Participated in Financial Planning Activities



Older Workers Need Help on the Best Ways to Generate Retirement Income

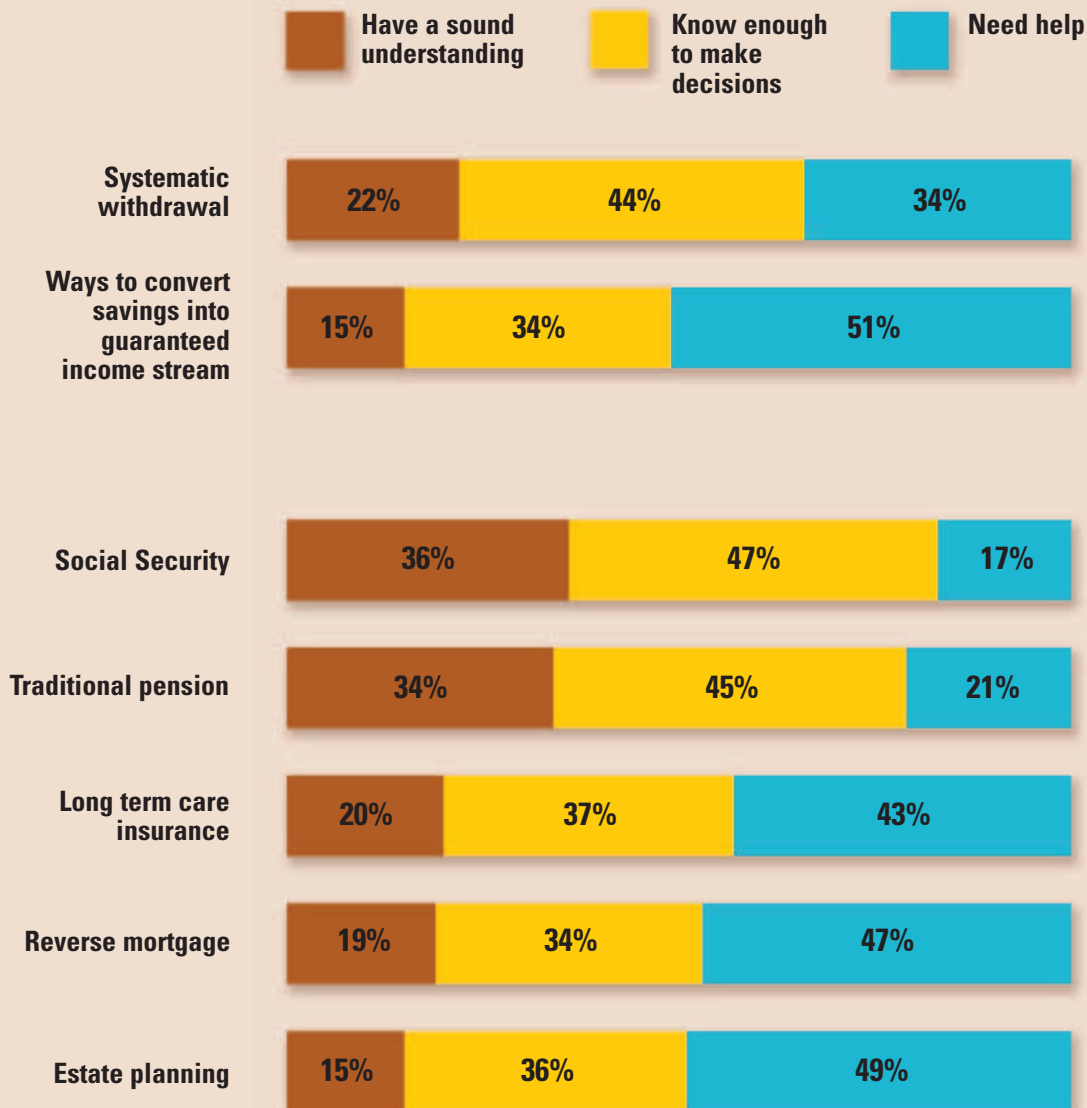
Near-retirees feel they have a sufficient understanding of Social Security and traditional pensions—historically, the bedrocks of retirement security. The future role of Social Security and pensions becomes more problematic, however, as they continue to wane.

Today, near-retirees must become familiar with new products and concepts that can make effective use of their personal financial resources to plan a successful retirement.

Yet, more than one third of our respondents say they need help to better understand systematic withdrawal programs, and more than half need guidance on how to generate a guaranteed retirement income from their personal savings.

In addition, understanding of other important products such as long-term care insurance, reverse mortgage, and estate planning is still low.

Near-Retirees and Products/Concepts Relevant to Retirement Income



Generating a Guaranteed Income Stream Is Desirable, But Most Don't Understand Effective Options

Many of today's retirees enjoy "peace of mind" knowing they can get a guaranteed stream of income for life from their traditional pensions. Such luxury will be increasingly hard to come by as fewer and fewer employers offer traditional pensions.

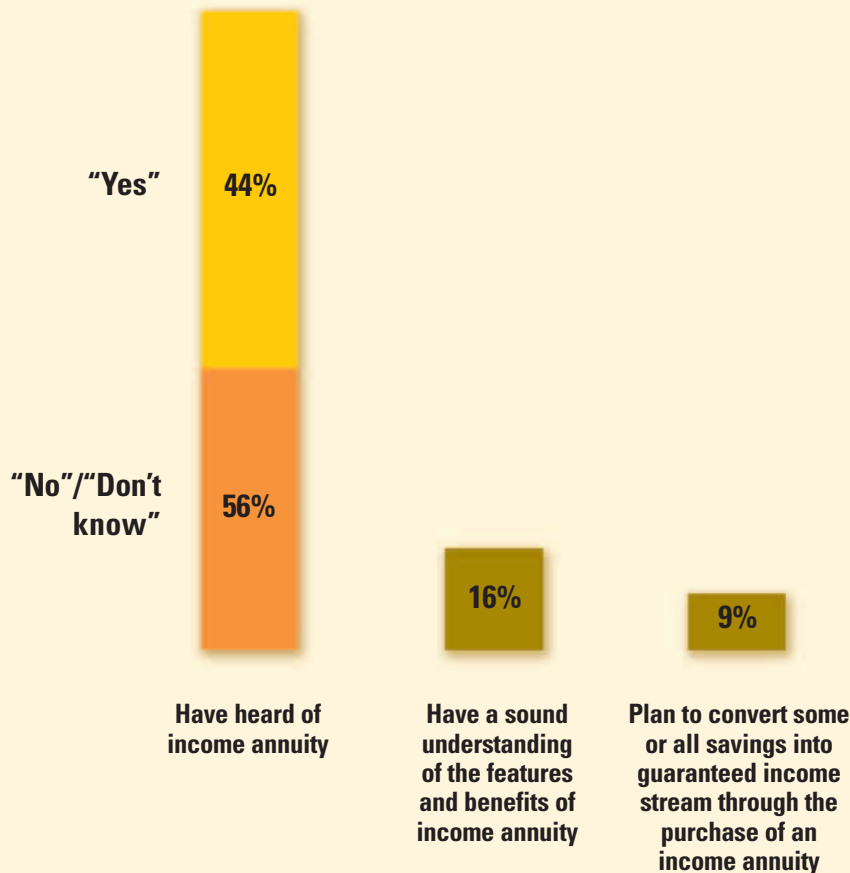
For today's near-retirees to still have a pension-like guaranteed income from their personal retirement savings, including assets in defined contribution plans such as 401(k)s, they must be willing to take the matter into their own hands and make use of appropriate financial products to accomplish this goal. In fact, income annuities are the only way by which retirees can convert their personal retirement savings into a guaranteed stream of retirement income.

However, are near-retirees willing to accept income annuity as a solution to their need for an income during retirement? At this point, the answer appears to be a resounding "no."

Less than half of near-retirees have heard of an income annuity, and less than one in six have a good understanding of its features and benefits.

Currently, just 9% plan to utilize the benefits of income annuities. The remaining near-retirees seeking guaranteed income need more education and exploration of their options.

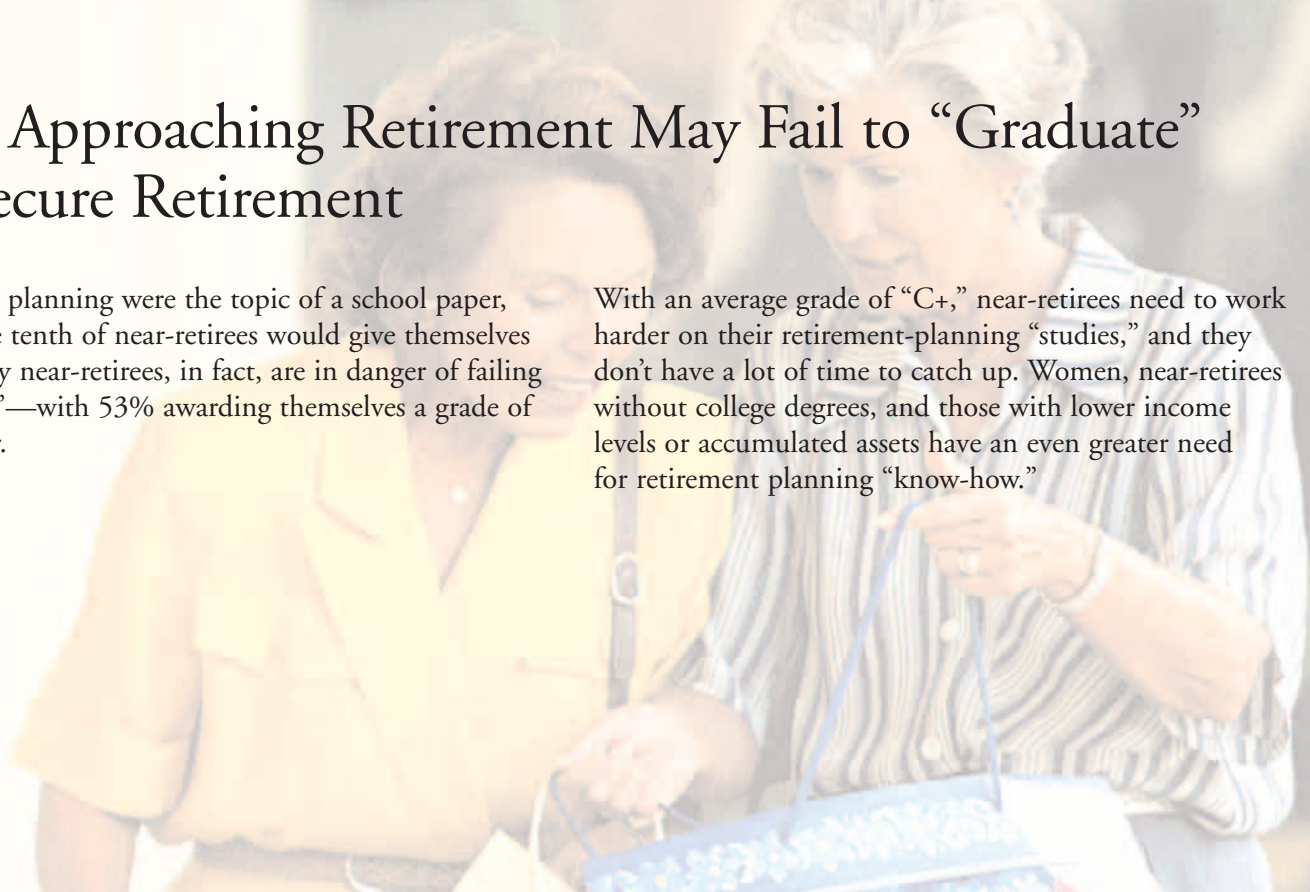
% Near-Retirees Who...



Many Approaching Retirement May Fail to “Graduate” to a Secure Retirement

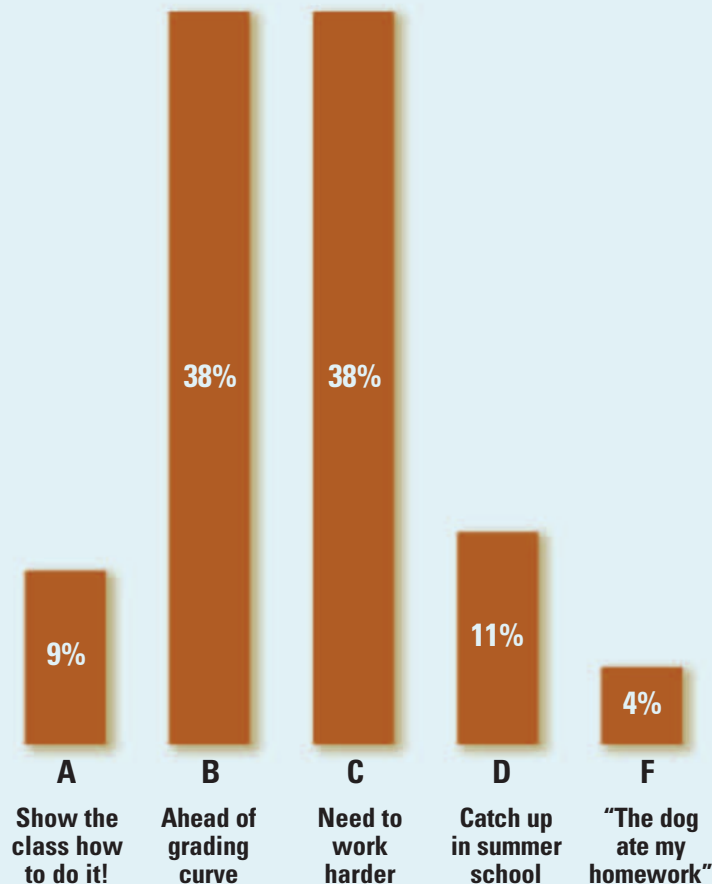
If retirement planning were the topic of a school paper, less than one tenth of near-retirees would give themselves an “A.” Many near-retirees, in fact, are in danger of failing to “graduate”—with 53% awarding themselves a grade of “C” or lower.

With an average grade of “C+,” near-retirees need to work harder on their retirement-planning “studies,” and they don’t have a lot of time to catch up. Women, near-retirees without college degrees, and those with lower income levels or accumulated assets have an even greater need for retirement planning “know-how.”



Self-Assessed Retirement Planning

Average: C+

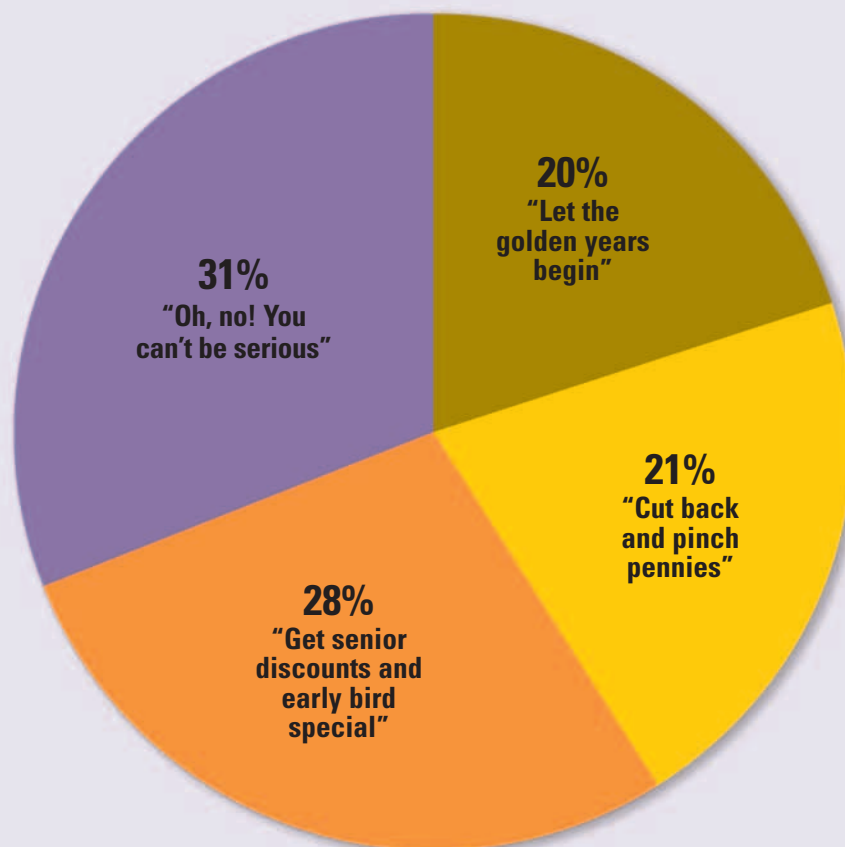


Sudden, Unexpected Retirement Presents a Real Risk to Near-Retirees

Nowadays, many people are forced to retire earlier than planned, often due to layoffs or poor health. Should retirement hit unexpectedly, just one fifth of near-retirees report that they are truly ready and could happily begin their golden years.

In contrast, for many near-retirees, retiring immediately could spell significant financial hardship, as they lag in financial preparation and would have to resort to “cutting back and pinching pennies,” or worse, to get by.

Readiness If Retirement Occurs Suddenly



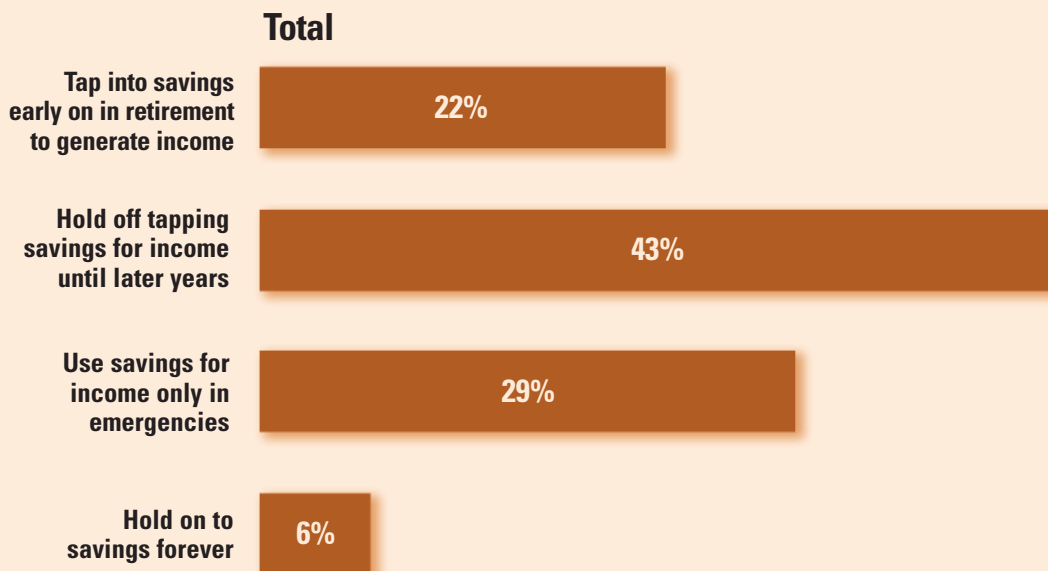
Older Workers May Underutilize Resources Due to Fear of Outliving Their Savings

As Americans approaching retirement worry about outliving their savings and becoming a burden to their loved ones, they tend to be overly conservative when it comes to using their personal savings. Just 22% plan to tap into savings early on in their retirement to generate a paycheck. Some 43% would hold off using their savings for income until later in retirement.

More than one third would either “hoard” their savings for emergencies or plan to hang on to it forever, depriving themselves of the opportunity to make effective use of their life savings to generate a stream of income to secure a comfortable retirement.

Those most in need for income, i.e., near-retirees with relatively low savings, are more likely to hold on to their savings for emergency use only.

% of Near-Retirees Who Plan to...



By Retirement Savings

	Less than \$100k	\$100k–\$249k	\$250k–\$499k	More than \$500k
Tap into savings early on in retirement to generate income	18	23	24	28
Hold off tapping savings for income until later years	43	43	49	49
Use savings for income only in emergencies	35	30	23	19
Hold on to savings forever	4	4	4	4

Americans are increasingly aware of their own responsibility for securing a comfortable retirement. And much time and energy have been devoted to *saving* for retirement, i.e., accumulating assets. As retirement approaches, however, millions may face a new challenge—how to create a stream of *income* during their post-employment years by creating a “paycheck” from their savings. At Prudential, we know saving is critical, but the issue in retirement is *income-generation*.

1. Generating retirement income is extremely important, but few older workers are well informed on this subject.

- Some 83% of our respondents report that “generating an income” that provides a comfortable retirement is “very important.”
- Just one fifth feel well informed about generating a “paycheck” for themselves in retirement. More than half couldn’t come up with a good estimate on how much retirement income they might have.

2. Those approaching retirement need to shift their focus from asset accumulation to distribution.

- Although retirement is imminent, more than six in ten near-retirees are still focusing on growing their nest egg—accumulating assets or achieving better returns—instead of generating retirement income.
- Older workers need help understanding retirement income options. More than one third need to better understand systematic withdrawal, and over half need guidance on how to turn personal savings into a guaranteed income stream.

3. Most near-retirees have not conducted rigorous planning and need help on effective retirement income generation.

- Just 7% of near-retirees developed a detailed retirement plan.
- Similarly, many near-retirees have not conducted the basic, yet necessary, projections of income and expenses in retirement. Some did, but their exercises often lacked the rigor required to be effective.
- Income-generating techniques such as systematic withdrawal or purchasing an income annuity are not well understood.

4. At this rate, near-retirees need to catch up quickly on retirement planning, or face the danger of not being able to “graduate.”

- Many recognize they don’t know as much as they should about retirement planning, and need to work harder at it—on average, near-retirees give themselves a grade of C+ on retirement planning. More than half are on the verge of “failing.”

5. Americans nearing retirement are poorly prepared to generate retirement income if faced with sudden, involuntary retirement.

- “Oh, no! You can’t be serious!” is not a strategy to deal with sudden, involuntary retirement, which happens to a great many Americans today. Only one in five near-retirees seem genuinely ready should retirement come tomorrow due to health concerns or layoffs.

6. The fear of outliving savings prevents many near-retirees from fully utilizing their financial resources to generate retirement income.

- Too often, near-retirees “do the best they can” with retirement planning, instead of focusing on goals such as targeted savings or, more importantly, a targeted income level.
- Nine in ten near-retirees agree it is “very important” not to run out of money in retirement. This concern, however, may lead to “hoarding”—just 22% say they would tap into savings for income early on in retirement, while most would try to hold on to them for as long as they could.

Other retirement research studies from Prudential Financial

1. 2003 Retirement Perceptions Study

- Defined contribution plans such as 401(k)s are expected to be the most important source of future retirement income; few expect to rely on Social Security.
- Participants in defined contribution plans such as 401(k)s are not actively managing their plan assets; their behaviors could be influenced by personalized advice and communication.

2. 2002 Retirement Perceptions Study

- American workers are guessing when it comes to retirement planning.
- Plan sponsors and providers can do more to provide information and guidance.

3. 2003 Survey of Recent Retirees

- Retirees are “hoarding” retirement savings in their bid to maintain financial independence and avoid being a burden, rather than using advice and products to optimize the use of their retirement savings.
- Retirees will try to “make do” with Social Security and their pensions.

4. Workplace Report on Retirement Planning (2004)

- The “millennial” generation has fundamentally different characteristics and attitudes from the Boomer generation.
- 401(k) plans failed to engage the “millennial” generation.

5. Workplace Report on Retirement Planning (2003)

- Confusion, apathy and futility are leaving many employees perplexed and struggling to achieve “financial follow-through.”
- Employers are a trusted source for retirement information, yet most fall short in their efforts to provide help and guidance.

6. Workplace Report on Retirement Planning (2002)

- Employees are upbeat about market trends despite volatility, plan to play a more active role in managing their retirement investments, and want their employers to provide better tools to manage workplace investments.

For copies of any of the above studies, please contact Darrell Oliver, Prudential Global Communications, at (973) 802-9627.

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