



The Fourth Pillar: Retirement Choices



Foreword

Myths have surrounded many issues in our society for decades, including myths about work and retirement. One of the more misleading and destructive was the myth that most of us could plan on working a full career with one employer, retire with “a gold watch and a pension,” and live happily ever after. Since World War II ended, we have never seen the number of people retiring with 25 years or more with one private employer climb above 24 percent. The number of those over age 65 with annuity income from a private sector pension hit its highest point in history around the turn of this century – about 23 percent – and has now begun to decline. In short, most American workers have never seen a stream of income during retirement other than Social Security. There is no data on how many were given a gold watch!



The myth was destructive because American workers – over 50 percent in the Retirement Confidence Survey® – believe that they will get pension income in retirement. As a result, they spend more and save less during their working years. Other myths: Social Security is enough to retire on, and Medicare pays all retiree health expenses. Again, the Retirement Confidence Survey® has found high numbers with these beliefs, exceeding 70 percent on the false belief that Medicare pays for long-term care.

The myths are destructive because they cause us to save less, think we can afford to retire when we actually can't, fail to save for retiree health expenses, and think we do not need to plan for long-term care with savings or insurance.

That is exactly why this paper from Prudential Financial is so important. It is important for each of us to read, absorb, build it into our lives, and then pass it on to everyone we know. The truth can be a lifeline for each of us. This paper tells hard truths, it does not spread myths. For me, the paper makes it clear that I need to save every day, plan and save for healthcare and long-term care, think about lifetime annuity income that will keep coming as long as I live, work until I know for certain that I have all the ducks in a row so that I do not have to return to work if I do not want to.

Since World War II at least 75 percent of the population would have been better off if they had read this paper. Today and tomorrow it is closer to 90 percent that will have more happy days than otherwise if they make this paper a life decision guide.

Choose to Save® and be rewarded with less stress and greater happiness.

Dallas L. Salisbury

Employee Benefit Research Institute and American Savings Education Council



A huge demographic wave is sweeping the social landscape. It's not just that we are living longer – we are healthier longer. Researchers estimate that we have gained on average a bonus of 10 biological years so that we are physically younger than our grandparents at the same age. This has created a whole new stage in the life cycle – a period of personal renaissance after “retirement” but before traditional old age. And this new phase can last 30 years or more.

What are people to do with these bonus decades? How will they support themselves? Where will they live? What are their goals? Who will they love – and who will be there to cherish them, as time goes by?

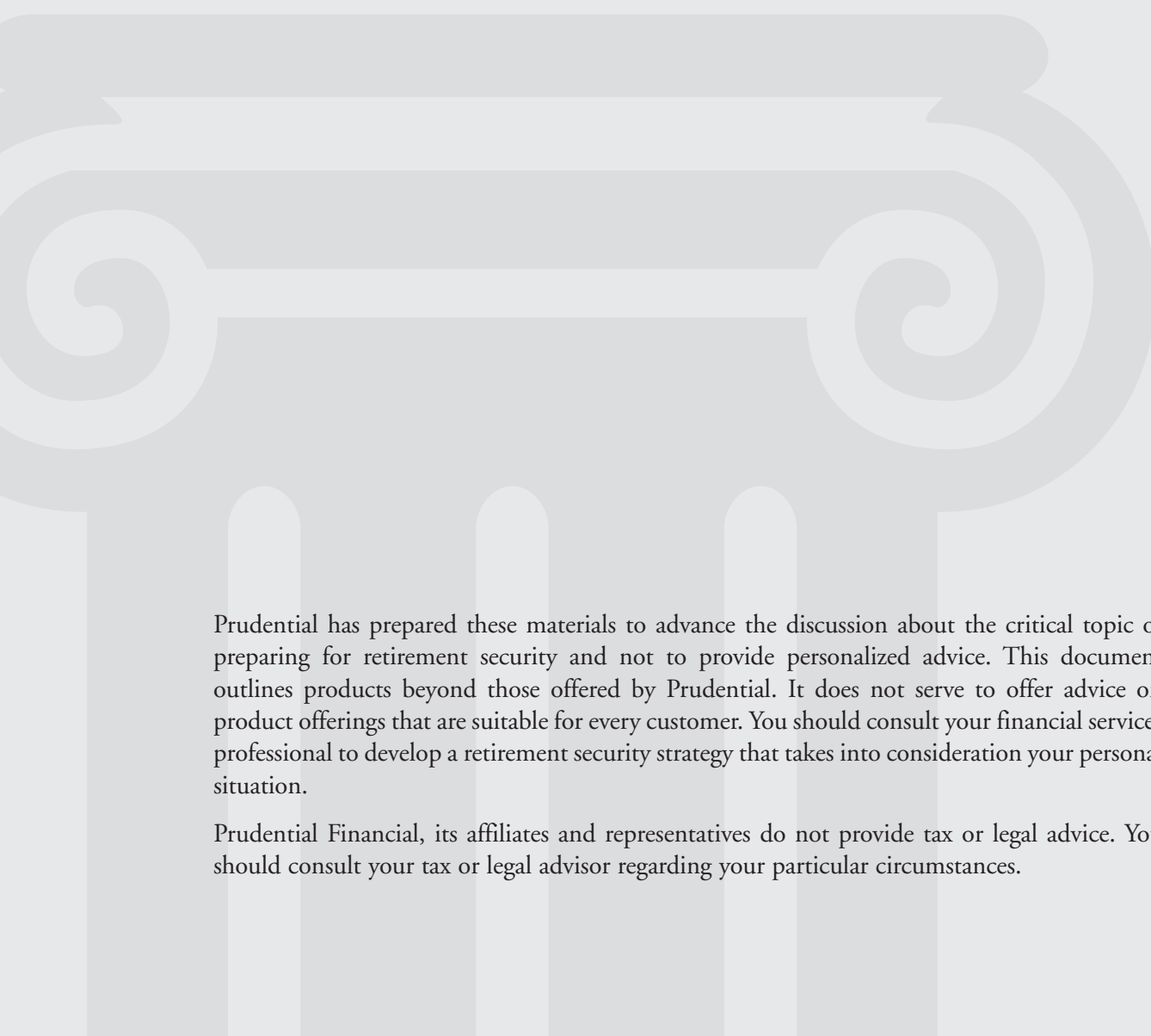
It is not an easy period. There are stresses in the workplace with lay-offs, downshifting and cutbacks in retiree benefits. There are health concerns from minor aches to serious illness. There are financial worries in an uncertain economy. Yet, for most men and women, this new phase heralds unprecedented possibility.

I remember a college reunion when my classmates and I were young adults in the zoom zone of juggling children and marriages and jobs – and we were all pretty exhausted from meeting these demands. A classmate cried out: “When is it going to be my time?” The answer is: When the primary tasks of adulthood have been completed. Children have been raised, career goals have been achieved. And then what? We are all pioneers in this uncharted territory of longer “health spans.” It's up to each of us to carve out a path and craft a legacy for future generations. For many of us, the path will include working. Or volunteering to serve the community. Or going to school, becoming creative in the arts. Or taking care of grandchildren, starting a company, running for Congress.

The old rules of “retirement” have been overtaken by the new realities of longevity. Instead of winding down, we have to gear up for a new chapter.

Abigail Trafford

Author of “My Time: Making the Most of the Bonus Decades After Fifty,” 2004, Basic Books.



Prudential has prepared these materials to advance the discussion about the critical topic of preparing for retirement security and not to provide personalized advice. This document outlines products beyond those offered by Prudential. It does not serve to offer advice on product offerings that are suitable for every customer. You should consult your financial services professional to develop a retirement security strategy that takes into consideration your personal situation.

Prudential Financial, its affiliates and representatives do not provide tax or legal advice. You should consult your tax or legal advisor regarding your particular circumstances.

The Fourth Pillar: Retirement Choices



Introduction

Prudential has developed the “Four Pillars of U.S. Retirement” as a framework to discuss how Americans will prepare for and live in retirement.

The Four Pillars have their origin in the traditional “three-legged stool” of retirement security: Social Security, Employment-Based Plans, and Personal Savings. To this, Prudential has added a fourth Pillar,

Retirement Choices, to capture lifestyle and financial choices that are taking on greater significance given the changing nature of retirement in America. These choices are even more critical given the difficulties in the financial markets and larger economy that have significantly impacted retirement savings.

Social Security	Employment-Based Plans	Personal Savings	Retirement Choices
<p>A social insurance program that provides retirement benefits as well as survivor and disability benefits.</p>	<p>Retirement plans available to individuals through their public, private, or not-for-profit employers, including:</p> <ul style="list-style-type: none"> • Defined Contribution plans, such as 401(k) and profit-sharing plans • Defined Benefit pension plans • Non-qualified and stock option plans 	<p>Products and platforms for the individual investor, which can be used to supplement Social Security or employment-based plans. These include*:</p> <ul style="list-style-type: none"> • IRAs • Annuities • Bank deposits • Mutual funds • Individually held securities 	<p>Lifestyle and financial choices that play a significant role in retirement security. Lifestyle choices including:</p> <ul style="list-style-type: none"> • When to start retirement • Whether to work in retirement • Where to live <p>Financial choices including how to:</p> <ul style="list-style-type: none"> • Allocate assets in retirement • Convert assets to income • Protect assets and income



*With the exception of bank deposits, products listed are not bank guaranteed/not FDIC insured/may lose value.

Why the Fourth Pillar?

A confluence of demographic, economic, and social trends is changing the nature of retirement in America and putting considerable pressure on the first three Pillars. This pressure has been magnified by the downturn in the financial markets that began in mid-2007 and materially reduced retirement nest eggs.

TREND	FACTS	IMPLICATIONS
Demographics	<ul style="list-style-type: none"> • In 2000, people aged 65 and older represented 12% of the U.S. population. By 2030, this will grow to 20%, or 71 million people.¹ • In 1950, the ratio of workers to beneficiaries in the Social Security program was 16:1. Today, that ratio is only about 3:1, and by 2030, it will be about 2:1.² 	<ul style="list-style-type: none"> • With the aging of the Baby Boom generation, more people will reach traditional retirement ages over the next two decades than at any other point in U.S. history, increasing pressure on the Social Security program as well as on employer-funded retirement benefits.
Longevity	<ul style="list-style-type: none"> • In 1935, when Social Security was enacted with benefit eligibility beginning at age 65, the life expectancy at birth was 62.³ • By 2005, the average life expectancy at birth was 78.⁴ • A person who reaches age 65 can expect to live, on average, another 19 years. Many, of course, will live longer.⁵ • Life expectancy for women is about five years longer than for men.⁶ 	<ul style="list-style-type: none"> • People are living longer, and longer lifespans mean longer retirements. Assets have to last through retirements that can last 20 to 30 years, or more. • This is of particular concern for women, who tend to live longer and to have lower incomes and retirement benefits than men.
Shift from Defined Benefit (DB) to Defined Contribution (DC) Plans	<ul style="list-style-type: none"> • Among the roughly 50% of private-sector workers with retirement plan coverage, the percentage covered by a DB plan had fallen from 83% in 1980 to 37% in 2005. • Conversely, the percentage covered by a DC plan had increased from 40% to 90%.⁷ • DC account balances are largely insufficient to generate adequate retirement income. For 2006, the average 401(k) balance was \$61,346 and the median was \$18,986.⁸ • Only 6% of retirees who had the opportunity to receive retirement benefits in a lump sum from a DB or DC plan took an annuity option.⁹ 	<ul style="list-style-type: none"> • The ongoing shift from traditional DB plans, which provided a guaranteed retirement paycheck, to DC plans such as 401(k)s (or to hybrids such as cash balance plans), transfers the responsibility for retirement security from employers to individuals. • The advent of automatic DC plan features, particularly since the passage of the Pension Protection Act of 2006, will help many individuals achieve higher levels of DC plan accumulations. For example, the percentage of employers that automatically enrolled participants rose from 19% in 2005 to 34% in 2007.¹⁰ More needs to be done, however, to help individuals generate adequate retirement income.



TREND	FACTS	IMPLICATIONS
Savings Inadequacy	<ul style="list-style-type: none"> • The personal savings rate was -1% in 2006, reaching a historic low since the Great Depression.¹¹ • In the one-year period ending October 9, 2008, about \$2 trillion of 401(k) and IRA equity assets was lost.¹² • In 2007, consumers had the highest level of debt service payments relative to their disposable incomes in more than 20 years.¹³ 	<ul style="list-style-type: none"> • The insufficiency of DC savings, combined with low personal savings rates and the recent market turmoil, means many retirees will have to consider alternative sources of retirement income, such as working in retirement or tapping into real estate equity.
Healthcare Inflation	<ul style="list-style-type: none"> • Healthcare spending is rising at about twice the rate of inflation.¹⁴ • It is estimated that a 65-year-old couple with average longevity will need to have \$376,000 to cover premiums and out-of-pocket expenses (assuming coverage is available through a former employer but is fully funded by the retiree) to achieve a 90% chance of having enough money to cover health expenses in retirement.¹⁵ 	<ul style="list-style-type: none"> • Funding post-retirement healthcare is looming larger as a threat to individuals' retirement security, placing even greater emphasis on retirement planning and saving.
Less Linear Lifestyles	<ul style="list-style-type: none"> • Many Boomers are not following the traditional retirement transition from full-time work to full-time leisure. A 2006 survey of 60-year-olds showed that 54% were still working, and 14% of those not working planned to go back to work in the next few years.¹⁶ • Many Americans are forced to retire earlier than anticipated as a result of downsizing, injury, health limitations, and family emergencies. • 60% of individuals in the period five years before to five years after retirement expect to have to care for someone else during their own retirement: a spouse, a parent, children, or grandchildren.¹⁷ 	<ul style="list-style-type: none"> • The Baby Boomer patterns show that lifestyles can be more customized, but more complicated. More rewarding, but more demanding. More flexible, but more difficult to plan. • Individuals who would like to postpone retirement or work in retirement may find it a bit harder to get or keep a job.

“Longevity is changing the rules of human development.”
 – Abigail Trafford

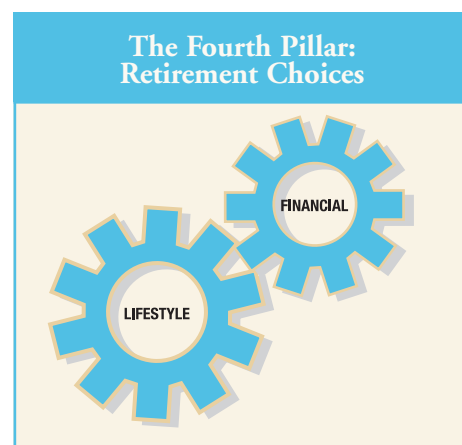
The Fourth Pillar: Retirement Choices

These trends combine to tell a good news/bad news story. Many retirees can look forward to long and healthy retirements, but how will they spend that time, and how will they fund it? Financial resources will, to a large extent, determine the feasibility of achieving lifestyle goals. In turn, lifestyle will impact financial resources. To achieve a balance between lifestyle and finances, there are a number of important questions to consider, including:

- What is the lifestyle I want to achieve in my retirement?
- What will my expenses be in retirement, given my desired lifestyle?
- How will I be able to afford my desired lifestyle throughout retirement? What other sources of income do I need to consider?
- How will I turn my savings into a “retirement paycheck”?
- How will I protect my retirement assets and income, for myself and for the people who depend on me?

For many, the first three Pillars may not be enough to sustain 20 or 30 years – or more – of retirement living at the level retirees wish to achieve. As a result, retirees will increasingly have to make choices such as whether and how to work in retirement, tap into home equity, and provide for the continuation of their retirement income for those who depend on them. Hand in hand with these financial considerations are lifestyle choices, such as if and when to stop working, where to live, and how extravagantly or simply to spend leisure time.

While these retirement choices are not new, they take on new significance in the face of the market trends and economic realities that put increased pressure on the first three Pillars and increased responsibility on individuals’ shoulders.





Lifestyle Choices

Many people have preconceived notions of what their retirement lifestyle will be, but longer years spent in retirement mean individuals have to think seriously about – or rethink – how they want to spend those years. Lifestyle choices, such as those listed below, both influence and are influenced by financial preparedness for retirement.

Lifestyle Choices

- ✓ When to start retirement?
- ✓ Whether to work in retirement?
- ✓ Where to live?
- ✓ How to provide care for dependents?
- ✓ How to spend leisure time?

Lifestyle Choices: When to start retirement?

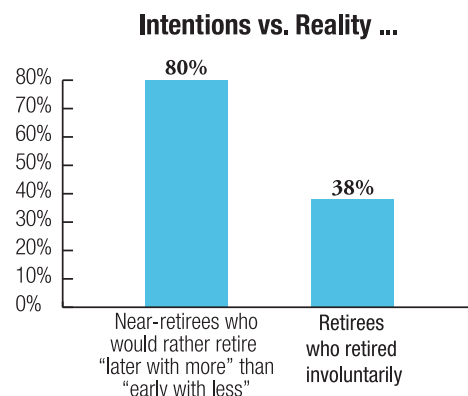
Today, on average, men retire at 63 and women at 62, and they can expect to spend an average of 20 years in retirement.¹⁸ If this trend continues, many will not have sufficient income in retirement. Many have come to the realization that working longer may help provide them greater security in retirement. The benefits of postponing retirement include: more current income to cover expenses, a greater accumulation of retirement assets, and delaying the draw-down of assets.¹⁹

Market conditions are likely to be a very significant factor in deciding when to start

“The most important part of retirement planning is knowing when you can and can’t retire. Too many leave work before they should, only to discover that they cannot afford the lifestyle they want.”

– Dallas Salisbury

retirement – assuming the choice still exists. When given a choice, 80 percent of near-retirees would rather retire “later with more” than “early with less.”²⁰ Yet, even though many would like to postpone retirement, the reality is that almost 40 percent of retirees were forced to retire earlier than anticipated. Further, 45 percent of these involuntary retirees were under the age of 60.²¹ Downsizing, injury, health limitations, and family emergencies can contribute to unexpected early retirement. The financial impact of early involuntary retirement can be two-fold. The time people thought they had to catch up on retirement savings is cut short, and involuntary retirees often face higher costs for unexpected expenses such as medical bills.

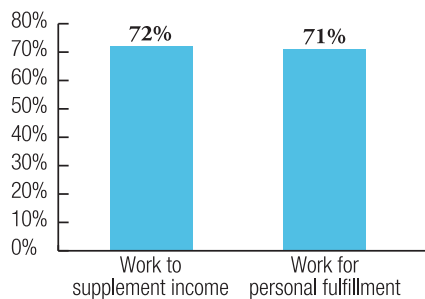


Source: Prudential Financial “Roadblocks to Retirement” 2005

Lifestyle Choices: Whether to work in retirement?

Increasingly, the “bright line” between working years and retirement years is morphing into a continuum – a gradual progression from more work time to more leisure time – or alternating periods of work and leisure. Many individuals indicate that they plan to work in some capacity in retirement – because they want to, need to, or both. For some individuals, working in retirement may be an extension of their previous career, or it may be an opportunity to start a second career. Individuals who choose to work may also consider, given the opportunity, whether to work full-time, part-time, or intermittently.

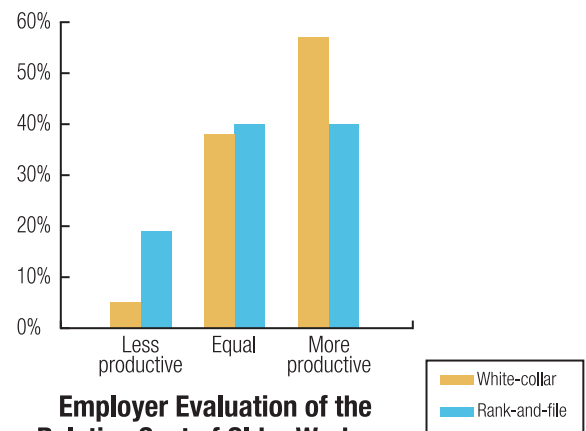
Percentage of Americans aged 30-69 who, in the first 10 years of retirement, plan to:



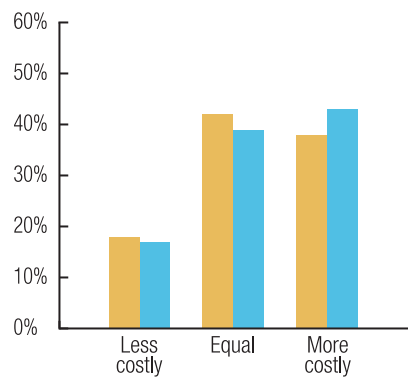
Source: Prudential Financial “Roadblocks to Retirement” 2005

Even though older workers may express a desire to work, research shows that they may experience more difficulty in finding a job after having lost a job. Older workers are generally seen as more productive, particularly in white-collar jobs; however, they are also often perceived as more expensive.²²

Employer Evaluation of the Relative Productivity of Older Workers



Employer Evaluation of the Relative Cost of Older Workers



Source: The Center for Retirement Research, “Employer Attitudes Towards Older Workers: Survey Results,” July 2006

Opportunities to work more flexible hours or in a phased retirement arrangement are limited. Many companies are not prepared to offer non-traditional career paths that involve fewer hours, more flexibility, or less responsibility, and, until the passage of the Pension Protection Act, employers were reluctant to allow workers to simultaneously draw a DB pension and a salary due to regulatory restraints. The new legislation allows pension plans to begin paying



benefits to workers who have not yet separated from their employers at the earlier of age 62 or the pension plan's normal retirement age.²³ The legislation may pave the way for a higher prevalence of phased retirement programs and make this option more financially viable for older workers who are entitled to DB pensions. While many companies do not currently offer a phased retirement approach in connection with their DB plan, many are considering the issue of knowledge retention and transfer, and may be willing to provide flexibility for near and recent retirees.

Other financial impediments continue to face those who want to work in retirement. Individuals who are receiving Social Security but are under their full Social Security retirement age lose \$1 of benefits for every \$2 earned over \$13,560 for years prior to the year they reach their full retirement age. Social Security retirement benefits become subject to income taxes if earnings exceed a threshold (currently \$25,000 for individuals and \$32,000 for couples).²⁴

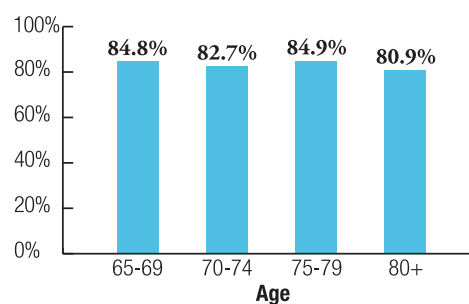
Lifestyle Choices: Where to live?

For many older adults, their homes represent a significant portion of their wealth. While real estate prices increased 60 percent from 2000 to 2007,²⁵ many older Americans built significant equity in their homes or paid off their mortgages. However, as a result of the recent real estate market fluctuations, many older adults have seen a portion of their home equity values erode. Compounding this phenomenon is that older adults have less time and ability to recover financial losses.²⁶ Careful consideration should be

given to choices regarding homeownership, geographic location, and type of dwelling facility that have lifestyle as well as financial implications.

Surveys indicate that most older Americans continue to own homes; the percentage of individuals who are homeowners (over 80 percent) remains stable between the ages of 60 and 80, and then declines slightly after age 80. This may be explained by bequest motives, emotional attachment, a desire to keep a high-performing investment, or a means of financing the possibility of long-term care by tapping into home equity.²⁷

Percentage of Homeowners by Age Cohort 1984-1998



Source: The Center for Retirement Research, "No Place Like Home: Older Adults and Their Housing," July 2006

Among those who sell their homes in retirement, some take the opportunity to move to another area for a different climate, a different setting, or a reduced cost of living. Relocating geographically can have a significant impact not only on housing expenses, but on a retiree's overall cost of living. Over half (54 percent) of the respondents in a recent Prudential study expect to move to a smaller home and/or to an area with a lower cost of living within 10 years of retirement.²⁸

In addition to geographic location, retirees may be faced with decisions regarding the type of dwelling facility. The spectrum of housing solutions continues to evolve as the population ages, from traditional housing in traditional settings to retirement communities, assisted living facilities, and nursing homes. The concept of “universal design” can make it easier to age in place for

“Physical relocation to lower-cost areas is going to have to happen more and more in the decades ahead.”

– Dallas Salisbury

those who wish to do so. Elements of universal design include features such as a first-floor master bedroom, wide hallways and doorways, and lever-style door handles.

Lifestyle choices: How to provide care for dependents?

Family dynamics are changing, and more and more Americans, including many retirees, are finding themselves sandwiched between responsibilities for older and younger family members.

Longevity is increasing the number of living generations in a family. Many individuals are having children at an older age, including those who start second families. Some find they have young children as well as grandchildren.

More than 25 percent of American families are involved in some way with elder care,

and may need to take on the responsibility of arranging for, or even funding, such things as paid in-home care, an assisted living arrangement, or nursing home care.²⁹

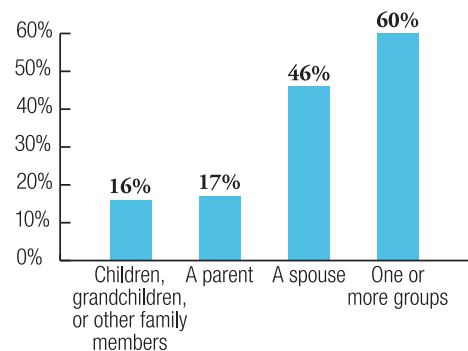
For many, the responsibility of caring for aging parents hits at a time when they are also raising children and anticipating sending them to college.

All of these factors are causing Americans to redefine their roles and responsibilities with regard to dependents. A recent survey of individuals in The Retirement Red Zone[®] (which Prudential defines as the five years before and five years after retirement) indicates that six in 10 expect to be responsible for providing care for others during their own retirements.³⁰

“We are a four-generation family: children, parents, grandparents, and great-grandparents. This is the New Normal Family.”

– Abigail Trafford

Percentage who expect to be responsible for providing care to:



Source: Prudential Financial “Retirement Red Zone” 2006



The other side of the coin is for retirees to consider who will care for *them*, if needed, in retirement, and what that might imply about decisions regarding, for example, life and long-term care insurance. Two-thirds of those in The Retirement Red Zone are concerned that serious health problems could make them a burden on their loved ones.³¹

Lifestyle Choices: How to spend “leisure” time?

It is estimated that Americans have gained an average of 10 biological years. That is to say, because Americans are healthier than previous generations, today’s 60-year-old may be on a biological par with a previous generation’s 50-year-old. Living longer does not necessarily mean adding years to the end of life; the additional years can be viewed as a “longevity bonus” – years of health and vitality *before* the end of life.³²

Opportunities abound for retirees to use their experience to launch a new career, give back to the community, or further their education. The Partnership for Public Service, a nonprofit advocacy group, has launched a pilot program to recruit private sector retirees into second careers in public service.³³ This could help address the impending wave of Boomers leaving the federal government – 42 percent of senior executives in government are projected to retire by 2010.³⁴ Some see an opportunity for Boomers to take the helm at nonprofits as the sector’s needs grow. It is estimated

that about 28,000 executive directors of nonprofits and foundations will be needed in 2016.³⁵ Programs exist for medical practitioners to work on a volunteer basis, such as the Volunteers in Medicine Program, which relies on volunteers to staff medical clinics around the country.³⁶ The Peace Corps is attracting more volunteers who are older.³⁷

Many use their new-found freedom to go back to school. The number of graduate students older than 50 grew by 38 percent between 2001 and 2005, to about 173,000 from 125,000, according to the National Center for Education Statistics.³⁸ Many retirees are opting to attend or audit college classes without receiving credit; many universities allow senior citizens to audit classes at no charge or at a discount.³⁹ For some, adult education may be a means for furthering their career or retooling for another career. Others may be pursuing interests they have long wanted to explore, or perhaps keeping their minds “fit.”

“Living longer and staying healthy longer have created a whole new stage in the life cycle – a period of personal renaissance inserted somewhere after middle age but before very old age.”

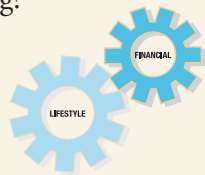
– Abigail Trafford

Financial Choices

Individuals have a number of choices to make in determining their lifestyle and related expenses, generating enough retirement income to cover those expenses, and protecting assets and income. Near-retirees may want to consider income-generating strategies such as maximizing Social Security, working in retirement, accessing home equity, and converting their accumulated assets into a stream of guaranteed income they cannot outlive. Individuals should also consider how to grow, protect, and transfer assets.

Financial Choices

- ✓ How to approach retirement income planning?
- ✓ When to begin drawing Social Security?
- ✓ Whether and how to access home equity?
- ✓ How to allocate assets in retirement?
- ✓ How to convert assets to income?
- ✓ How to minimize taxes on retirement income?
- ✓ How to protect assets and income?
- ✓ How to transfer wealth?



Financial Choices: How to approach retirement income planning?

It is in the needs-analysis component of retirement planning – determining how much income individuals will need in retirement to cover expenses – that lifestyle choices and financial choices come together. The level of income an individual or household might need in retirement is often expressed as a percentage of pre-retirement income, or replacement rate. There are many “rules of thumb” when it comes to replacement rates, ranging from 65 percent (or even lower) to 100 percent or more. Higher suggested replacement rates typically reflect anticipated higher medical expenses in retirement. The reality is that the ideal replacement rate varies considerably according to one’s projected expenses in retirement.

A more accurate method than using a rule-of-thumb replacement rate is to estimate annual living expenses during retirement to come up with the needed level of retirement income. Expenses in retirement will be dependent on several factors, such as lifestyle, taxes, housing decisions, healthcare costs, and the availability of health insurance coverage. It is worth closely examining the expense side of the retirement equation, because it is likely that retirees will have more latitude over making adjustments to the expense side of the equation than to the income side.



Another important consideration is the impact of inflation. Expense levels for an individual will likely change over time, and assuming a general rate of inflation might not fully capture these changes. Instead, it can be useful to categorize expenses, and consider how each category of expenses might rise or fall. Some expenses, like healthcare, tend to increase at a level higher than the general inflation rate.

Situations vary considerably among individuals, and building a retirement income plan can be a complex task. A financial professional can help craft a customized retirement income plan to help achieve retirement goals.

Financial Choices: When to begin drawing Social Security?

Individuals can claim Social Security retirement benefits as early as age 62 or as late as age 70. The longer the claim is delayed, the bigger the monthly benefits will be. Retirees may choose to receive reduced benefits before their full retirement age, full benefits at full retirement age, or increased benefits beyond full retirement age. Most retirees draw on Social Security soon after they are eligible. In fact, according to the Social Security Administration, 72 percent of current recipients received reduced benefits because they started their benefits prior to their full Social Security retirement ages.⁴⁰ (Previous changes to Social Security to address future solvency issues resulted in the gradual raising of the age at which full

benefits can be collected, from 65 in 2002 to 67 by the year 2025.)

There are trade-offs. Starting the benefits early will allow for immediate income and provide benefits over a longer time span, but the benefits will be at a reduced level. On the other hand, delaying Social Security can yield a larger monthly benefit. An estimate of an individual's "break-even" age can be calculated, which might help in the decision-making process. For example, the break-even age would be 82 years for a current 62-year-old who is deciding whether to begin benefits at age 62 or 66. In other words, this individual would have to live beyond 82 years in order for the decision to delay benefits until age 66 to be optimal.⁴¹

Break-Even Age Estimate*

Example: Individual 62 years old in 2008, full retirement age 66, and eligible for \$750 in monthly benefits.

<u>Monthly Benefits**</u>	<u>Break-Even Age</u>
At 62: \$750	} 62 versus 66: 82 years
At 66: \$1,000	
At 70: \$1,320	

*The results of this break-even analysis differ from the estimate provided by the Social Security Administration. This analysis assumes the benefits received are invested, and earn a 3% after-inflation annual return – the Social Security Administration does not include interest in its break-even calculations.

** The analysis does not consider Social Security cost-of-living adjustments.

Source: Prudential calculations

While the break-even analysis is helpful, it may not portray the whole picture. For example, the break-even analysis ignores future cost-of-living adjustments, which can provide inflation protection for a retiree. When exploring this choice, an individual should also consider personal health, family history for longevity, other sources of retirement income, and spousal/family benefits. (In general, spouses are eligible to receive a spousal benefit – the higher of their own Social Security worker’s benefit or one-half of their spouse’s benefit. In addition, a spouse, when widowed, could “step up” to the deceased spouse’s current benefit if it is higher than the Social Security benefit the surviving spouse is currently receiving.)

For example, if a retiree’s spouse is significantly younger, it may be worth delaying benefits to enhance both the retiree’s benefit and the survivor’s benefit. This strategy, though, could mean missing out on some spousal benefits, because spousal benefits can only be drawn once the breadwinner has started to receive Social Security. Another option would be to “File and Suspend.”⁴² The Senior Citizens’ Freedom to Work Act of 2000 allows a retiree to file for benefits at full retirement age or later, so the spouse can start the spousal benefit, and then immediately suspend benefits, and earn delayed retirement credits. While these delayed retirement credits won’t increase the spousal benefit, they will boost both the retiree’s and the survivor’s benefits.

In addition to spousal and survivor benefits, the retiree may consider how the timing decision impacts taxes and the inflation-adjusted amount of benefits received. There are innovative products and services available to analyze and customize the best approach for an individual’s situation. The key is that Social Security should be treated as any other part of an individual’s portfolio, and should be used to maximize the potential lifetime income and risk protection available.

Financial Choices: Whether and how to access home equity?

For many individuals, their home is an important component of their personal wealth. While this can provide a nice cushion, it does not readily provide the income needed to sustain retirement needs – it leaves some in a “house rich, cash poor” position.

Retirees have several ways to tap into the value of their homes. One option for individuals to explore is selling their home and either purchasing a less expensive residence or renting in retirement, either locally or in another area. In many parts of the country, this option could allow retirees to maintain or improve their pre-retirement living standard, and also set aside proceeds for expenses that may arise later in life. Understandably, many retirees do not want to sell their primary home. Further, real estate market fluctuations may make selling one’s home at an inopportune time an unattractive alternative. Another option would be to secure a home equity loan, but



Q. *What is a reverse mortgage?*

A. A reverse mortgage is a loan that enables senior homeowners to convert part of their home equity into tax-free cash flow, without having to sell their home or relinquish title to it. The amount of the loan is primarily based on a home's appraised value, the age of the borrower, prevailing interest rates, and geographical lending limits. The product is aptly named, because the payment stream is reversed. Instead of making monthly payments to a lender, as with a regular mortgage, a lender makes payments to the homeowner.

Q. *What are the eligibility requirements?*

A. Requirements vary, but, typically, applicants must be at least age 62, own their own home or be able to pay off their existing mortgage with the proceeds of a reverse mortgage, and use their home as a permanent residence (occupy it for at least six months a year). In addition, applicants may be required to meet with a counselor to understand the risks of reverse mortgages.

the homeowner is then faced with making monthly payments. Yet another option is a reverse mortgage, which converts home equity into cash and does not have to be repaid while the homeowner is still living in the home. Homeowners can choose to receive their mortgage funds in a lump sum, in regular monthly payments, as a line of credit, or as a combination of these methods.

Relatively few older adults take out reverse mortgages.⁴³ In fact, research shows that many are unaware of the various ways they can live in their homes and generate a guaranteed stream of retirement income.⁴⁴

Of course, before accessing home equity, it is important for individuals to consider how to use the proceeds in a suitable manner. Individuals may choose to supplement their retirement income to pay for living expenses, home improvements, or cover medical costs.

While reverse mortgages can provide value, there are also costs and risks, and homeowners need to consider carefully whether reverse mortgages might be the right option for them. From a cost perspective, individuals will likely be faced with fees and closing costs, and may pay a higher interest rate than for regular mortgages. There are risks as well. If an individual sells their home soon after taking out a reverse mortgage, the loan could be costly to pay off. For those who have had reverse mortgages for many years, owners may find that they have little or no equity left in their homes. Of course, like borrowers of regular mortgages, borrowers of reverse mortgages are subject to fluctuating real estate market conditions, and they maintain responsibility for property taxes and other home expenses.

Financial Choices: How to allocate assets in retirement?

Although asset allocation is a topic most frequently discussed in the context of asset accumulation – when individuals are saving for retirement – deciding how to invest assets is also of great importance during retirement, when retirees begin to draw on retirement savings to create retirement income. In fact, there are *two* asset allocation questions retirees should consider. The first is the amount that should be devoted to generating guaranteed income streams. The second is the investment mix of remaining assets.

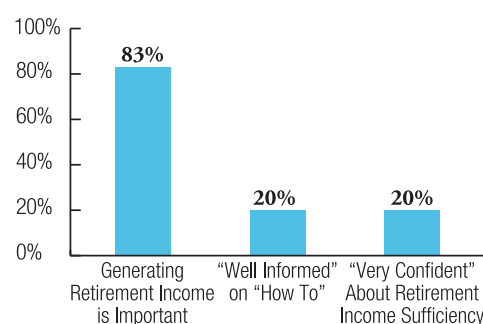
Using guaranteed cash flow streams to cover basic needs in retirement may improve the likelihood that a retirement plan will meet retirement income objectives. Using guaranteed income to meet basic needs may also allow investors to take a less conservative approach to asset allocation with their remaining assets, which, through greater exposure to investment risk, may increase the likelihood of meeting retirement income needs. For some, this two-step asset allocation strategy can produce more favorable outcomes than either step alone.⁴⁵

Financial Choices: How to convert assets to income?

Because the responsibility for generating retirement income has largely shifted to the individual, many retirees are faced with having to convert assets into a lifetime income stream. While most pre-retirees

know they need to generate a replacement paycheck in retirement, only a small percentage believe they are well-informed about how to do that.⁴⁶

Regarding Retirement Income, Percentage of Pre-Retirees Who Feel ...



Source: Prudential Financial's Fourth Annual Workplace Report on Retirement Planning, 2005

One simple method to create retirement income is to systematically draw down assets. A common rule of thumb is to withdraw 4 percent of assets each year. The advantages of this method are simplicity and control. The disadvantages are that having enough money is not guaranteed or, conversely, that retirees might unnecessarily underspend relative to their desired lifestyle expenses.

One product that is effective in generating guaranteed lifetime income is an annuity. Annuities give individuals options to invest for retirement in a tax-advantaged manner, and to derive income from their retirement investments. Annuities can protect against longevity risk, and therefore increase the likelihood of individuals having an adequate retirement income – that is, of not outliving their assets.



While annuities are the only products that can turn an individual's retirement assets into *guaranteed* income for life, individuals have traditionally been reluctant to annuitize their savings – to give up access to and investment control over their hard-earned nest egg, even for the guarantee of income for life. In addition, individuals are uncomfortable with the notion that any account value that remains upon the death of an annuity income recipient goes to pay others' annuity benefits, rather than being passed along to heirs. They view this risk pooling, which is necessary for traditional annuitization, as a gamble they are unwilling to take, even though they readily accept the concept of risk pooling when it comes to auto, homeowners, and life insurance.

However, new variable annuity product features, such as Guaranteed Minimum Withdrawal Benefits (“GMWBs”), have been developed that offer a contemporary approach to guaranteed lifetime income *without* requiring traditional annuitization. GMWBs guarantee that, even if the account is depleted during the lifetime of the income recipient, the insurer will continue sending checks for the guaranteed income amount for life. Unlike traditional annuitization, the individual maintains a measure of control – there is no requirement to turn over a lump sum in exchange for a monthly paycheck, and the recipient may choose to increase or decrease the withdrawals. (However, investment in specific investment options

may be required.) In addition, GMWBs provide for any remaining account value to be passed on to heirs, even once income payments have begun. GMWBs and other “guaranteed living benefits” as options on annuity contracts are available for an additional fee. Recently, they have become available as an option in some DC plans as well. Because guaranteed living benefits help overcome the psychological barriers to traditional annuitization, and based on the popularity of these features in the marketplace, they offer promise as a source of guaranteed income for retirees. (Annuity guarantees are based on the claims-paying ability of the issuing insurance company.)

Another product, longevity insurance, is one form of a deferred annuity – that is, an annuity that begins payments after a specified period of time has elapsed. Longevity insurance is a fixed annuity that converts payments made today to an income stream with a deferred start date, typically at around age 85. It is designed to protect retirees from outliving their retirement income. Because longevity insurance deferral periods are much longer, a relatively small premium amount can guarantee an attractive stream of lifetime income. Longevity insurance may be appealing because of its cost advantage relative to an immediate annuity beginning at a younger age. However, whether longevity insurance solutions will be widely accepted in the marketplace has yet to be determined.

What Is a Variable Annuity?

A variable annuity is a contract between you and an insurance company, whereby the insurer agrees to make periodic payments to you, beginning either immediately or at some future date. You can make a single purchase payment or a series of purchase payments, and there are generally no contribution limits. Variable annuities offer a wide range of professionally managed investment options, guaranteed death benefits, and a variety of payout options including guaranteed income for life.

Plus, any investment gains grow tax-deferred. When you need income, annuities generally offer, without charge, annual access up to 10% of purchase payments. Withdrawals are subject to ordinary income taxes, with withdrawals considered to come first from taxable earnings, and then from the return of investment. If withdrawals are taken prior to age 59½, a 10% federal income tax penalty may apply. Withdrawals exceeding a specified annual amount may be subject to a withdrawal charge, which is assessed for a period of time and generally reduces each year. Withdrawals will reduce the living and death benefits.

The costs vary depending on the annuity and include the cost of: issuing and maintaining the contract, the base death benefit, and investment management expenses. Many variable annuities also offer guaranteed optional living and death benefits that, for an additional fee, can help provide an added measure of security during your lifetime, and for your beneficiaries. All guarantees are based on the claims-paying ability of the issuing company.

Your financial professional can help determine which annuity product, optional benefits, and investment allocation may be suitable for your retirement needs. Please read the prospectus for full details, including all fees and charges.

Investors should consider the variable annuity contract and the underlying portfolios' investment objectives, risks, charges and expenses carefully before investing. This and other important information is contained in the prospectuses, which can be obtained by contacting your financial professional. Please read the prospectuses carefully before investing.



Financial Choices: How to minimize taxes on retirement income?

There is no one-size-fits-all answer to the question of how to most effectively minimize taxes on retirement distributions and income. Many retirement assets have

an imbedded tax liability that reduces the apparent value of the assets. When considering how to make retirement assets last as long as possible, individuals must consider the tax liabilities inherent in the assets, and determine how best to manage the unlocking of those tax liabilities over time.⁴⁷

Five Strategies to Save on Taxes in Retirement

1. **Never forget, it's the net.** It's not what you earn or withdraw, it's what you keep after taxes.
2. **Be tax-smart in your selection of retirement vehicles and asset allocation.** There are many types of tax-favored retirement vehicles – some provide a current tax benefit, and some provide a tax benefit at the time of distribution. Each type has its own rules about how and when the funds may be used, under which circumstances there is a penalty tax for a premature distribution, and what exceptions exist to any penalty. In addition, the types of investments chosen within the different retirement vehicles will impact what will be available on an after-tax basis. Many other factors must be considered when deciding where to place retirement savings, including whether an individual expects tax rates to be higher or lower in retirement. Choosing a vehicle should be done with an understanding of tax and non-tax considerations.
3. **Know how to keep what's yours in taking distributions.** Make a plan for withdrawals to minimize current and future taxes. Take an inventory of all potential sources of retirement income. Determine the current tax treatment for each, and what it might be as your sources of income change in the future. Determine which assets are subject to required minimum distributions.
4. **Be tax-smart if you continue to work.** Continuing to work requires consideration of such factors as the possibility of unfavorable tax treatment of Social Security for individuals who have not reached full retirement age, as discussed in a previous section. Also, continuing to work in retirement may provide for additional opportunities to accumulate savings in retirement vehicles, even while an individual has begun taking distributions.
5. **Don't go it alone.** For something as important as a secure retirement, make sure you work with a financial professional and tax advisor who can give you the advice you need.

Financial Choices: How to protect assets and income?

When developing retirement income plans, individuals should consider protection against the loss of assets and income that may result from a death or illness. A surviving spouse or dependent may incur financial burdens should the primary income recipient pass away and income from work, a pension, or Social Security cease or be reduced. A recent survey showed 72 percent of men and 42 percent of women consider “making sure my spouse is financially OK if I die before her/him” a “very important” financial goal.⁴⁸ These statistics reflect the special concerns regarding retirement security for women, who can generally expect to live longer and often have lower retirement benefits.

Life insurance pays a generally income-tax-free death benefit (IRC section 101(a)) and can be a cost-effective way to provide income to a surviving spouse and other dependents. Another feature available in some life insurance policies is the living benefit. This benefit allows the policyholder to receive a portion of the death benefit under circumstances such as a terminal illness or an extended stay in a nursing home.*

Healthcare expenses may significantly reduce an individual's retirement savings as well as

the income generated from those savings. There are two types of healthcare costs to consider. The first type is day-to-day or periodic out-of-pocket medical expenditures. It is estimated that a 65-year-old couple with average longevity will need to have \$376,000 to cover premiums and out-of-pocket expenses (assuming coverage is available through a former employer but is fully funded by the retiree) to achieve a 90 percent chance of having enough money to cover health expenses in retirement.⁴⁹ Expenses related to healthcare should be considered in determining retirement living expenses during the retirement income planning process.

The second type of healthcare cost is associated with the potential need for long-term care, which is usually unskilled care provided to those unable to perform the basic activities of daily life or who are severely cognitively impaired. Among individuals interviewed in a study conducted by Prudential, 42 percent consider it likely they will require nursing home care in the second 10 years of retirement. Statistics show the likelihood of a catastrophic long-term care event in retirement for one individual of a couple is 50 percent. According to 2008 Prudential research, nursing home cost estimates can reach \$140,000 to \$240,000 for the average two-to three-year stay.⁵⁰ Individuals, as part of

*Availability, terms and conditions of this feature vary by product and state. When a claim is paid, the death benefit is reduced and other fees may be deducted. Receipt of living benefits may be taxable and may affect eligibility for public assistance programs.



their retirement planning, should consider insuring against the expenses related to this type of unpredictable but potentially catastrophic event. However, according to the Index of Long-Term Care Uninsured, only 5 percent of adults aged 45-64 and earning more than \$20,000 had long-term care insurance in 2005. For those aged 65 and above, 15 percent had long-term care insurance.⁵¹

While an individual is still working, disability coverage should be considered as a means of protecting income. Disability insurance replaces a portion of an individual's salary should the individual become disabled and unable to work. Without it, an individual may have to spend retirement savings, college funds, and other assets to meet everyday living expenses.

Financial Choices: How to transfer wealth?

Estate planning is an important way to effectively distribute the maximum amount possible to designated beneficiaries with minimum delay, reduce estate taxes, and ensure assets are distributed in the manner of one's choice. There are a variety of tools from which to construct an estate plan, including wills, trusts, and life insurance.

A will is the foundation of most estate plans because individuals designate how and to whom property will be distributed after death. If an individual dies without a will,

the decision as to how to distribute assets is left to state intestacy rules, and these rules may or may not be consistent with the individual's wishes. In a will, individuals may name a guardian for minor children and an executor.

A trust is a legal agreement set up to facilitate the transfer of property to a trustee for the benefit of your beneficiaries. An individual can provide for an inheritance to be held, invested, and distributed by the trustee in accordance with their wishes. With a trust, costs and delays of probate are avoided. A legal advisor should be consulted for advice regarding an individual's specific needs.

Life insurance can also play a key role in estate planning. During one's lifetime, life insurance provides the potential for tax-deferred cash accumulation. At the end of one's lifetime, the death benefit can guarantee that something will be passed on to a retiree's heirs – generally income tax free. For example, life insurance could help provide for aging parents, children with special needs, or children from a previous marriage.⁵² If an estate includes a family-owned business, real estate, or other non-monetary assets, life insurance proceeds can provide desirable liquidity to help pay estate taxes and eliminate the need to sell all or a portion of those assets. For other estate situations, proper planning using life insurance and trusts can help minimize estate taxes.

Conclusion: A Call to Action

Demographic, economic, and social trends are changing the nature of retirement in America, putting pressure on traditional sources of retirement income, and making individuals more personally responsible for their own financial security in retirement. While more and more retirees can look forward to long retirements, the retirement choices they make – both lifestyle and financial – will play an increasingly important role in their retirement well-being.

How can an individual approach these Fourth Pillar Retirement Choices? The following are some steps that individuals may want to consider in making choices along the road to achieving a secure retirement.

- **Start preparing for retirement while you are still working.**

- Save money – start as early as possible, and set aside as much as possible; take advantage of workplace retirement plans, especially matching programs and “catch-up” provisions.
- Manage asset allocation – diversify among asset classes, rebalance your investments periodically, and consider professionally managed investment products (e.g., mutual funds, managed accounts).

- Know where you stand financially – take inventory of your assets and income sources, and understand your retirement plan distribution options.
 - Plan your healthcare coverage – identify your healthcare coverage options in retirement.
 - Plan for your beneficiaries – create a will, select a guardian if needed, and select who will manage your estate.
- **Consider the questions posed in the Lifestyle Choices section of this paper as a guide to prompt your thinking about choices.**
 - Think about when to retire, whether to work in retirement, and how to spend your leisure time.
 - Consider where to live, conduct research (e.g., geographic options), and maybe make home preparations for the future (e.g., universal design).
 - Although it can be difficult, start the conversation with parents regarding how to provide care for them should it be needed in the future, or with children regarding your own future care needs and wishes.



- **Use the Financial Choices questions as a guide to understanding your financial possibilities.**
 - Understand the financial implications of your desired lifestyle.
 - Work with a financial professional to develop a strategy tailored to your specific needs and goals.
 - Conduct “what if” scenarios to explore other lifestyle options.
 - Check in with your financial professional periodically to make sure your strategy stays on course.
- **Explore product solutions for achieving your financial goals.**
 - Generating retirement income – including traditional annuities, the new generation of variable annuities with guaranteed living benefits, and longevity insurance.
 - Accessing home equity – including downsizing or relocations, reverse mortgages, and home equity loans.
 - Protecting assets and income – including life insurance, long-term care insurance, and disability insurance.
 - Transferring wealth – including wills, trusts, and life insurance.

Prudential Financial, its distributors and their respective representatives do not provide tax, accounting, or legal advice. Any tax statements contained herein were not intended or written to be used, and cannot be used, for the purpose of avoiding U.S. federal, state, or local tax penalties. Please consult your own independent advisor as to any tax, accounting, or legal statements made herein.

Tax deferral is already provided by a qualified plan, such as 401(k)s. For an additional fee, the annuity provides a guaranteed death benefit and the ability to receive lifetime income.

Payments of guaranteed principal and income, as well as living and death benefit guarantees, are contingent upon the claims-paying ability of the issuing company. Guarantees do not apply to the investment performance or safety of the underlying subaccounts in the variable annuity. Optional living and death benefits are available for an additional fee and may not be available in all states.

Variable annuities are for retirement purposes and are subject to market fluctuation, investment risk, and possible loss of principal.

Life insurance and annuity contracts contain exclusions, limitations, reductions of benefits and terms for keeping them in force. Your licensed financial professional can provide you with costs and complete details.

The availability of long-term care and disability income insurance varies by carrier and state.

Asset allocation does not guarantee a profit or protect against loss; however, a properly diversified portfolio can help manage the volatility of your returns and may better position your investments to capture performance as asset classes rotate in favor.

Insurance is issued by The Prudential Insurance Company of America, Newark, NJ, and its affiliates. Variable annuities are issued by Pruco Life Insurance Company (in New York, by Pruco Life Insurance Company of New Jersey), Newark, NJ and distributed by Prudential Annuities Distributors, Inc., Shelton, CT. All are Prudential Financial companies and each is solely responsible for its own financial condition and contractual obligations. Wachovia Corporation is the majority owner and Prudential Financial, indirectly through subsidiaries, is a minority owner of Wachovia Securities, LLC. Prudential Annuities is a business unit of Prudential Financial. All guarantees based on the claims-paying ability of the issuing company.

VARIABLE ANNUITIES:

ARE NOT FDIC INSURED	MAY LOSE VALUE	ARE NOT BANK OR CREDIT UNION GUARANTEED
----------------------	----------------	---

Endnotes

- 1 U.S. Census Bureau, "Statistical Abstract of the United States," Table 10, 2008.
- 2 Social Security Administration, "The 2008 OASDI Trustees Report," April 2008, pages 50-51.
- 3 Center for Disease Control and Prevention, "National Vital Statistics Reports," Vol. 52, No. 14, Table 12.
- 4 Center for Disease Control and Prevention, "National Vital Statistics Reports," Vol. 56, No. 10, Table 8, April 28, 2008.
- 5 Center for Disease Control and Prevention, "National Vital Statistics Reports," Vol. 56, No. 10, Table 7, April 28, 2008.
- 6 Center for Disease Control and Prevention, "National Vital Statistics Reports," Vol. 56, No. 10, Table 8, April 28, 2008.
- 7 Employee Benefit Research Institute, "Retirement Trends in the United States Over the Past Quarter-Century," Facts from EBRI, June 2007.
- 8 VanDerhei, Jack, and Holden, Sara, "401(k) Plan Asset Allocation, Account Balances, and Loan Activity in 2006," EBRI/Investment Company Institute, August 2007, page 10.
- 9 McKeever, Joseph F., "Safest Available Annuity Standard: Is This Meaningful Change?," *National Underwriter*, December 3, 2007.
- 10 Hewitt Associates, "Trends & Experience in 401(k) Plans," 2007.
- 11 Crutsinger, Martin, "Personal Savings Drops to 73-Year Low," *washingtonpost.com*, February 1, 2007.
- 12 Munnell, Alicia, and Muldoon, Dan, "Are Retirement Savings Too Exposed to Market Risk?," The Center for Retirement Research at Boston College, October 2008, page 1.
- 13 Federal Reserve, "Household Debt Service and Financial Obligations Ratios," 2008.
- 14 Kaiser Family Foundation, "Percent Annual Increase in National Health Expenditures per Capita vs. Increase in CPI" slide, *www.kff.org*, January 1, 2008.



Endnotes

- 15 Employee Benefit Research Institute, "Retiree Health Savings: How Much Is Enough?," Fast Facts from EBRI, June 2008, pages 7-8.
- 16 AARP, "Boomers Turning 60," June 2006, page 1.
- 17 Prudential Financial, "The Retirement Red Zone[®]," June 2006, page 16.
- 18 Munnell, Alicia H., Sass, Steven A., and Soto, Mauricio, "Employer Attitudes Towards Older Workers: Survey Results," The Center for Retirement Research at Boston College, July 2006, page 1.
- 19 Munnell, Alicia H., et al., "Will We Have to Work Forever?," The Center for Retirement Research at Boston College, July 2006, page 1.
- 20 Prudential Financial, "Roadblocks to Retirement," 2005, page 6.
- 21 Prudential Financial, "Roadblocks to Retirement," 2005, page 7.
- 22 Munnell, Alicia H., Sass, Steven A., and Soto, Mauricio, "Employer Attitudes Towards Older Workers: Survey Results," The Center for Retirement Research at Boston College, July 2006, pages 1, 4.
- 23 *PlanSponsor*, "New Data Confirms Americans Working Through Retirement," September 16, 2008.
- 24 Social Security Administration, "Answers to Your Questions."
- 25 Munnell, Alicia H., and Soto, Mauricio, "The Housing Bubble and Retirement Security," The Center for Retirement Research at Boston College, September 2008, page 1.
- 26 AARP Public Policy Institute, "A First Look at Older Americans and the Mortgage Crisis," Insight on the Issues, September 2008.
- 27 Smeeding, Timothy, et al., "No Place Like Home: Older Adults and Their Housing," The Center for Retirement Research at Boston College, July 2006, pages 2, 21.
- 28 Prudential Financial, "Roadblocks to Retirement," 2005, page 10.
- 29 American Institute of Certified Public Accountants, "360 Degrees of Financial Literacy."
- 30 Prudential Financial, "The Retirement Red Zone[®]," June 2006, page 16.
- 31 Prudential Financial, "The Retirement Red Zone[®]," June 2006, page 17.
- 32 Trafford, Abigail, "The Community for Aging Well," White House Conference on Aging, December 12, 2005.
- 33 Rosenberg, Alyssa, "Pilot Program Will Target Corporate Workers for Federal Jobs," *GovernmentExecutive.com*, January 17, 2008.
- 34 Rutzick, Karen, "Initiative Targets Retirees for Second Careers in Government," *govexec.com*, January 10, 2007.
- 35 Stanford Graduate School of Business, "Baby Boomers Find Second Careers Working for Social Change," September 2006. Estimate by Thomas Pollak of the National Center for Charitable Statistics at the Urban Institute.
- 36 Stark, Lisa, and Carpenter, Megan, "Baby Boomers Challenge Notion of Retirement," *ABC News*, January 10, 2006.
- 37 Trafford, Abigail, "Making More of a Milestone," *washingtonpost.com*, August 1, 2006.
- 38 Larson, Christine, "Older, and Wiser, Students," *The New York Times*, October 22, 2008.
- 39 Brandon, Emily, "Tips on Paying for College as a Retiree," *U.S. News & World Report*, October 26, 2006.
- 40 Prudential Financial, "Innovative Strategies to Help Maximize Social Security Benefits," January 2008, page 4.
- 41 Clements, Jonathan, "Delayed Gratification: When Postponing Social Security Payments Is a Smart Move," *The Wall Street Journal*, May 10, 2006.
- 42 Prudential Financial, "Innovative Strategies to Help Maximize Social Security Benefits," January 2008, pages 5-6.
- 43 Smeeding, Timothy, et al., "No Place Like Home: Older Adults and Their Housing," The Center for Retirement Research at Boston College, July 2006, page 2.
- 44 Prudential Financial research.
- 45 Further insights on this topic can be found in the Prudential Financial white paper entitled "Learning the Two-Step: A New Approach to Asset Allocation for the Retiree," October 2006.
- 46 Prudential Financial's Fourth Annual Workplace Report on Retirement Planning, 2005, page 3.
- 47 Further insights on this topic can be found in the Prudential Financial white paper entitled "Tax-Wise Retirement Distribution Planning," April 2006.
- 48 Prudential Financial, "The Retirement Red Zone[®]," June 2006, page 16.
- 49 Employee Benefit Research Institute, "Retiree Health Savings: How Much Is Enough?," Fast Facts from EBRI, June 2008, pages 7-8.
- 50 Prudential Financial, "Long-Term Care Cost Study," July 2008, page 4.
- 51 Long Term Care Group, "Long Term Care Group Examines Market Penetration and Potential."
- 52 Fishbein, Robert A., "Debunking Retirement Planning Myths," Prudential Financial, 2007, pages 3-4.

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 Financial 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

To learn more, visit www.prudential.com



Prudential