

LIVING WELL IN ANY MARKET

RETIREMENT INCOME PLANNING STRATEGIES



BY P.D. MEHIGAN

The Challenge: To keep market turmoil from undermining your retirement plan

The Goal: Guaranteed lifetime income that locks in gains for retirement income

Retirement promises the opportunity to live life to its fullest. Today's average American can enjoy the prospect of living longer and healthier: A person reaching 65 has nearly two decades ahead of him or her, according to a March 2011 report by the Centers for Disease Control and Prevention. And, according to the Society of Actuaries, a healthy couple age 65 has almost a 50% chance that at least one spouse will live to age 95. The challenge this brings is ensuring that each of us can actually make the most of that time—including making sure our retirement income meets our goals and expectations. That's a task made all the more daunting by the extreme market volatility we continue to experience.

Make no mistake: No previous generation has faced this challenge. Thirty years ago, 84% of the private sector workforce could expect a pension. Today, only 30% of workers at large companies have a defined benefit plan, and the percentage falls to single digits for those at small companies or for those who own their own business, according to a December 2010 report by the Employee Benefit Research Institute. Odds are that a significant portion of your retirement funds are

invested at your discretion, whether through a 401(k) plan, an SEP, an IRA or another account. Jacob Herschler, head of Business Strategy for Prudential Annuities, says this raises a major question: "How do you avoid getting stuck with unfortunate market environments either just before or after you want to retire?"

Research by the University of Missouri shows the retirement timing problem can be a major hurdle to financial security. The Missouri study, released in July 2011, found that every 1% gain in the S&P 500 in any year increases the probability a person will retire by 2.5%. This seems to occur because individuals have targeted a balance goal in their retirement account. So in 2010, when the S&P gained 13%, a person was approximately 32% more likely to retire than in a year in which the S&P was flat. And as we have seen so far in 2011, negative years often follow strong years in the market.

Locking in Your Gains for Retirement Income

Innovations from the financial services industry, specifically the annuities industry, have made it so that you don't have to wait to reach a target number in order

to retire and then hope the market stays strong. Instead, individuals can lock in an annual guaranteed lifetime income amount—and count on that amount of lifetime income regardless of subsequent market performance.

Toward this end, Prudential Annuities offers an optional living benefit, available for an additional fee on its variable annuities, called Highest Daily Lifetime Income. This innovative benefit captures your annuities' daily values and locks them in as the basis for your income in retirement. Each new highest daily value your portfolio reaches becomes the new basis for your retirement income. This value can go up, but will never come down, regardless of any market declines. In addition, Highest Daily Lifetime Income grows this value immediately at a 5% compounded annual rate until the day you begin taking income. The annual income amount you are entitled to receive is based on your accrued income base as well as the age at which you begin taking withdrawals. Once you begin taking Lifetime Withdrawals, your annual income amount is guaranteed for as long as you live, regardless of whether the account principal becomes depleted. "At Prudential Annuities, we are very big believ-

ers in providing innovative strategies to meet the needs of today's generation of retirees," explains Herschler. In fact, guaranteed lifetime income can sidestep another hurdle to financial security: the chance that the market could swoon right after you retire. Returns in the first year of retirement can have an inordinate effect on a portfolio. If you have a \$1 million portfolio and the market gains 10% in your first year, assuming you withdraw 5% a year to live on, you will have a \$1.05 million portfolio entering your second year of retirement. But a 10% drop in your first year of retirement means you would have an \$850,000 portfolio entering year two. Such potential variations in gains and losses reverberate in one's portfolio for many years. In some cases the effect is magnified, because people may shift into more conservative assets after a market drop, possibly reducing the likelihood of recovering losses quickly. In today's historically low-interest-rate environment, a conservative portfolio may not generate enough income for retirement.

A poll of 1,274 Americans by Prudential Annuities at the start of 2011 revealed this conundrum. The percentage of people

who characterize their portfolio as conservative had risen 21% (to 40% of all respondents) compared to pre-crash 2008. Yet 73% of people believe their investments are not earning enough to make up for previous losses. "Americans want to continue to manage their retirement investments. They don't want to give up control," adds Herschler. "Yet at the same time, they want some certainty that if bad things happen, lifetime income will help protect them."

An Improvement on Annuities

One of the advantages of variable annuities is that they allow you to invest in the equity markets, and any investment gains accrue tax-deferred until income begins. Prudential Annuities allows its variable annuity investors to choose from a wide array of investment options, including traditional long-term stock-and-bond approaches, short-term tactical stock-and-bond strategies, and an alternative investments strategy. For those investors who choose the Highest Daily Lifetime Income feature, Prudential Annuities employs a predetermined mathematical formula that monitors their investment on a daily basis to help manage the guarantee. This formula will shift a portion of their

portfolio into or out of a lower-risk bond portfolio, depending on the difference between their actual account value and their basis for guaranteed lifetime income.

As with all variable annuities, there is no guarantee of growth—as equity investments fluctuate daily. It's also possible that investment costs could outweigh gains. As with any financial product, variable annuity products come with investment costs, including fees for purchasing protection options. It is important to discuss your specific goals, risk tolerance and financial situation with a financial professional to determine if annuity products are suitable for your portfolio.

Of those who do invest in variable annuities from Prudential companies, Herschler estimates that as many as 90% of them opt for a guaranteed lifetime income feature, such as Prudential's Highest Daily Lifetime Income feature that is available on all of Prudential Annuities' variable annuity products. "It lets them take income when they need to start taking income—not when their account hits a number that makes them feel like it's safe to start taking it," he says.

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

A variable annuity is a long-term investment designed to create guaranteed income in retirement. Investment returns and the principal value of an investment will fluctuate so that an investor's units, when redeemed, may be worth more or less than the original investment. Withdrawals or surrenders may be subject to contingent deferred sales charges. Withdrawals and distributions of taxable amounts are subject to ordinary income tax and, if made prior to age 59½, may be subject to an additional 10% federal income tax penalty. Withdrawals, other than from IRAs or employer retirement plans, are deemed to be gains out first for tax purposes. Withdrawals can reduce the account value and the living and death benefits.

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

Fixed income investments are subject to risk, including credit and interest rate risk. Because of these risks, a subaccount's share value may fluctuate. If interest rates rise, bond prices usually decline. If interest rates decline, bond prices usually increase.

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All guarantees, including optional benefits, are backed by the claims-paying ability of the issuing company and do not apply to the underlying investment options.

Optional benefits have certain investment, holding period, liquidity, and withdrawal limitations and restrictions.

Highest Daily Lifetime Income uses a predetermined mathematical formula to help us manage your guarantee through all market cycles. Each business day, the formula determines if any portion of your account value needs to be transferred into or out of the AST Investment Grade Bond Portfolio (the "Bond Portfolio"). Amounts transferred by the formula depend on a number of factors unique to your individual annuity and include:

- (i) The difference between the account value and the Protected Withdrawal Value;
- (ii) How long you have owned Highest Daily Lifetime Income;
- (iii) The amount invested in, and the performance of, the permitted subaccounts;
- (iv) The amount invested in, and the performance of, the Bond Portfolio; and
- (v) The impact of additional purchase payments made to and withdrawals taken from the annuity.

Therefore, at any given time, some, most, or none of the account value may be allocated to the Bond Portfolio. Transfers to and from the Bond Portfolio do not impact any income guarantees that have already been locked in. The Protected Withdrawal Value is separate from the account value, and not available as a lump sum.

Any amounts invested in the Bond Portfolio will affect your ability to participate in a subsequent market recovery within the permitted subaccounts. Conversely, the account value may be higher at the beginning of the market recovery; e.g., more of the account value may have been protected from decline and volatility than it otherwise would have been had the benefit not been elected. Please note: We are not providing investment advice through the formula. You may not allocate purchase payments or transfer account value into or out of the Bond Portfolio. See the prospectus for complete details.

Variable annuities offered by Prudential Financial companies are available at a total annual insurance cost of 0.55% to 1.85%, with an additional fee related to the professionally managed investment options. Note: All products may not be available through all third party broker/dealers. HD Lifetime Income is available for an additional annual fee of 0.95% based on the greater of the account value and the Protected Withdrawal Value.

Issued on rider: P-RID-HD(1/11), et al. or state variation thereof.

Issued on contracts: P-B/IND(2/10), P-L/IND(2/10), P-X/IND(2/10), P-CR/IND(2/10), et al. or state variation thereof.



MARKET VOLATILITY SHOULDN'T TAKE EVERYONE'S RETIREMENT FOR A RIDE.

What's the market doing today? How about this second? Today, our financial world is more connected, volatile and challenging than ever before. Especially for those investing in the years leading up to, or just after, retirement. We call this The Retirement Red Zone®. At Prudential, we've conducted extensive research into the risks, unique behaviors and specific needs of investors during this critical window of opportunity.

The result: innovative new ways to seek growth, manage risk and create guaranteed annuity income streams in retirement. Investing in today's volatile market is a challenge. But with 135 years of experience and the newest thinking, **THIS IS A CHALLENGE WE CAN MEET.**

Learn more at BringYourChallenges.com



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