

# From Saving to Income: Defined Contribution Plans Are Evolving

Defined contribution (DC) plans are the primary source for employees' retirement income. But many employers have yet to evolve their retirement savings plan to help workers address their greatest financial wellness challenge: generating an adequate and sustainable amount of lifetime income in retirement.

THEN

THE FIRST  
GENERATION  
401(k)  
PLANS



DC PLANS VERSION 1.0

## Relied on Employees

Relied on employees to voluntarily enroll, determine the amount they would like to save, and choose their own investments, usually from an extensive menu of choices.

NOW

DC PLANS VERSION 2.0

## A Focus on Savings Accumulation

Adding auto enrollment and default investment options helped get more workers to save and invest properly.



Despite the evolution of DC plans to Version 2.0, workers remain vulnerable to longevity, market, inflation, sequence of returns, and conversion risks.



of pre-retirees (ages 55-62) are very confident their savings will be sufficient in retirement.<sup>1</sup>



Cost per person per year of carrying workers who can't afford to retire.<sup>2</sup>

FUTURE

DC PLANS VERSION 3.0

## A New Focus on Retirement Outcomes

With new technology, solutions, and customization, DC plans can help workers meet their individual retirement income goals.

### Consider the Four Phases of the Retirement Journey

#### 1 Accumulation

Build wealth through diversified solutions.



#### 2 Preparation

Customize portfolios to help participants get ready to meet their unique income goals.



#### 3 Early retirement

Support retirees' needs to produce a steady income from their account.



#### 4 Late retirement

Entered at age 85 and largely deals with longevity risk and bequest considerations.



THE  
SECURE  
ACT

### Washington Supports the Next Evolution

Policymakers in Washington have already indicated their support for a third evolution in DC plans with the overwhelming approval of the SECURE Act. Among other things, the act mandates that DC plans provide plan participants with individualized projections of how much retirement income their DC account balances will generate in the future.



Prudential

## When participants can manage their financial lives and retire on time, everybody wins.

To learn more about the next evolution of DC plans, read our new white paper:

[From Saving to Income: The Next Evolution of Defined Contribution Plans](#)

or contact [Josh Cohen](#).



<sup>1</sup> Results based on 10,953 individuals between the ages of 55-62 that took our Financial Wellness Assessment between 3/1/18 and 1/28/2020.

<sup>2</sup> Prudential, "Why Employers Should Care About the Cost of Delayed Retirements." April 2017

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