

BRIDGING THE GAP TO ENHANCE RETIREMENT SECURITY

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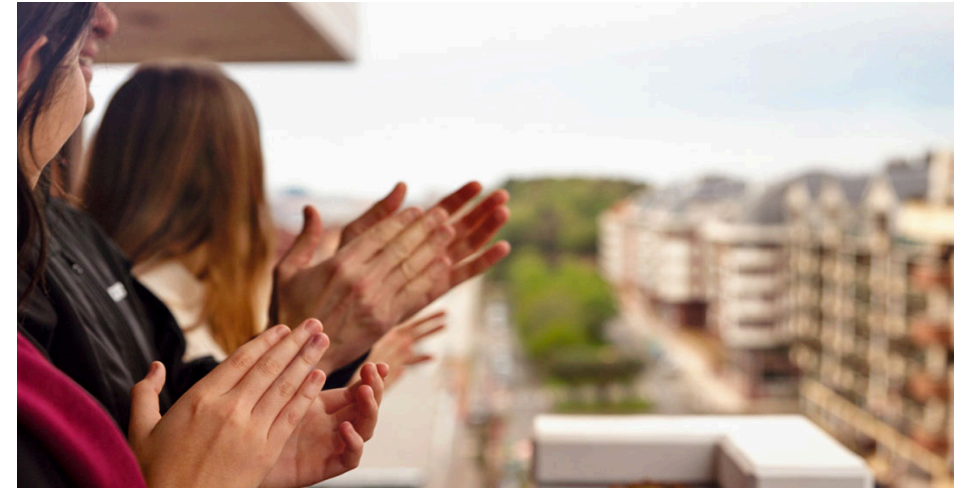
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COPING WITH CRISIS: FIDUCIARY PRIORITIES IN THE DC WORLD

In times of crises, being a fiduciary responsible for providing Defined Contribution (DC) plans for employees is especially critical.

KEY TAKEAWAYS

- For participants, focus on the long term
- For plan sponsors addressing near-term issues, maintain a fiduciary mindset
- For regulators, beware of unintended consequences
- For plan sponsors evaluating strategic topics, consider evolving plan design



➤ **Key learnings from the conversations with Plan Sponsors**

CARES ACT – DC PLAN PROVISIONS

- Plan Withdrawal and Loan Relief
 - Similar to treatment during past disasters (IRS Notice 2005-92)
- Expanded DC Plan Withdrawals
 - Withdrawals before 12/31/20; up to \$100k
 - Eligible if: “reduced work due to SARS/COVID”
 - employee certification acceptable
 - 10% early withdrawal penalty waived
 - Three-year tax spread and repayment option

CARES ACT – DC PLAN PROVISIONS

- Expanded Plan Loans
 - New loans made before August 15, 2020
 - New loan limit increased from \$50k to \$100k
 - Existing loans: 1-year repayment extension
 - Loans/Withdrawals: Technically plan optional
 - Plan amendments necessary
- Waiver of 2020 Age 70-1/2 RMDs
 - Pre-CARES Act RMDs

Snapshot of the Talk:

- Demographic developments
- Key data on U.S. economic inequality
- How do these two trends interact?
- Implications for the economy and markets

The Global Labor Force Will Likely Grow More Slowly

Working Age Population: Average Growth (Percent)*

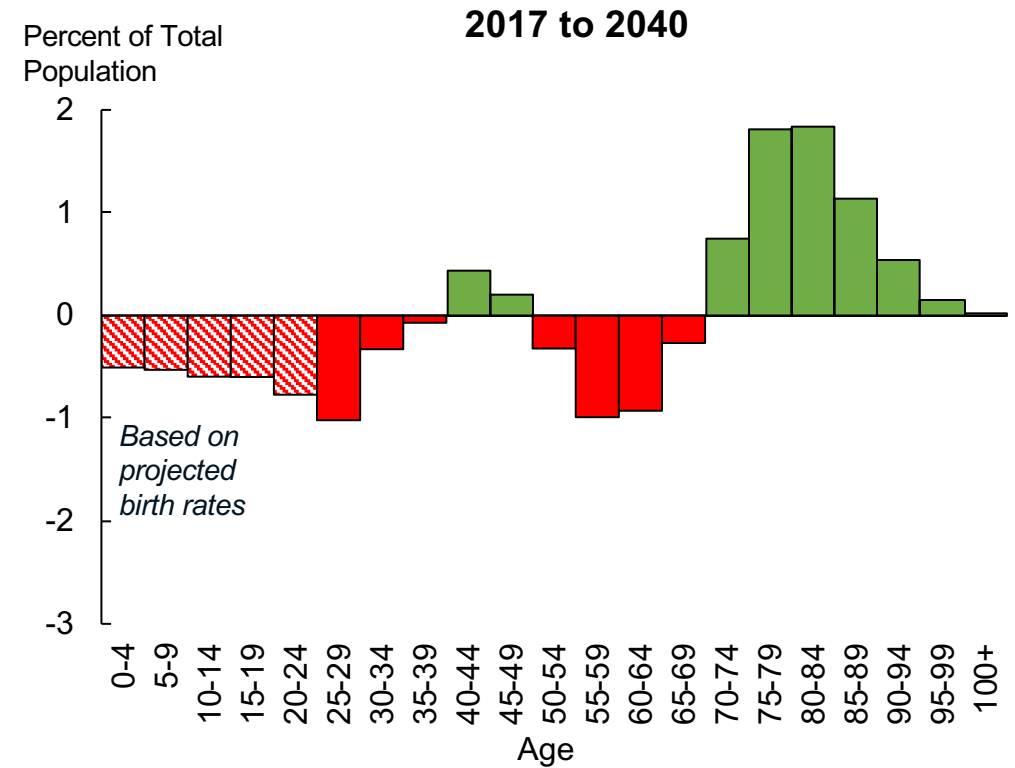
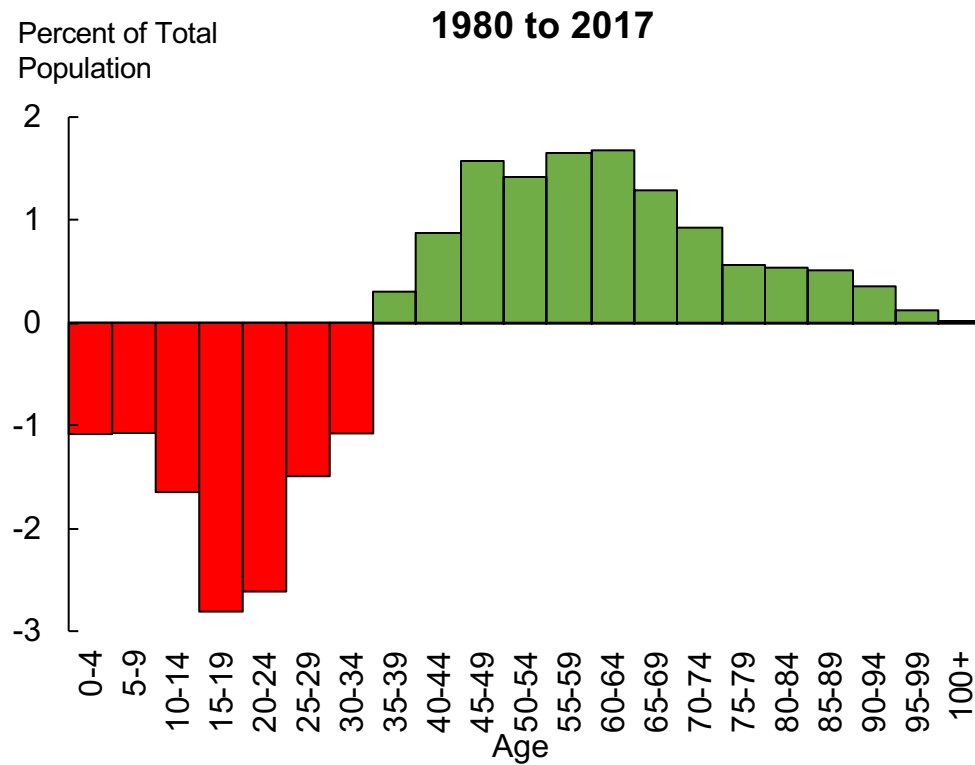
	2000-2009	2010-2018	2019-2035 (Proj.)
<u>Global</u>	1.7	1.2	0.8
<u>Advanced Economies</u>			
<i>United States</i>	1.1	0.5	0.2
<i>Euro Area</i>	0.3	-0.1	-0.6
<i>Japan</i>	-0.5	-1.0	-0.8
<i>United Kingdom</i>	0.9	0.4	0.1
<u>Emerging Markets</u>			
<i>Mexico</i>	2.0	1.7	0.9
<i>India</i>	2.1	1.7	1.0
<i>China</i>	1.4	0.2	-0.4
<i>Korea</i>	0.6	0.3	-1.1

*Ages 15-64.

The U.S. Demographic Transition

Change in U.S. Population Distributions (by Age)

As of 2017



Note: The red (green) bars show age cohorts for which the 1980 (2017) population share is larger. Source: United Nations, PGIM Fixed Income. Projections are not guaranteed, and actual results may vary.

U.S. ECONOMIC INEQUALITY

U.S. Inequality—A Story of Divergent Tails

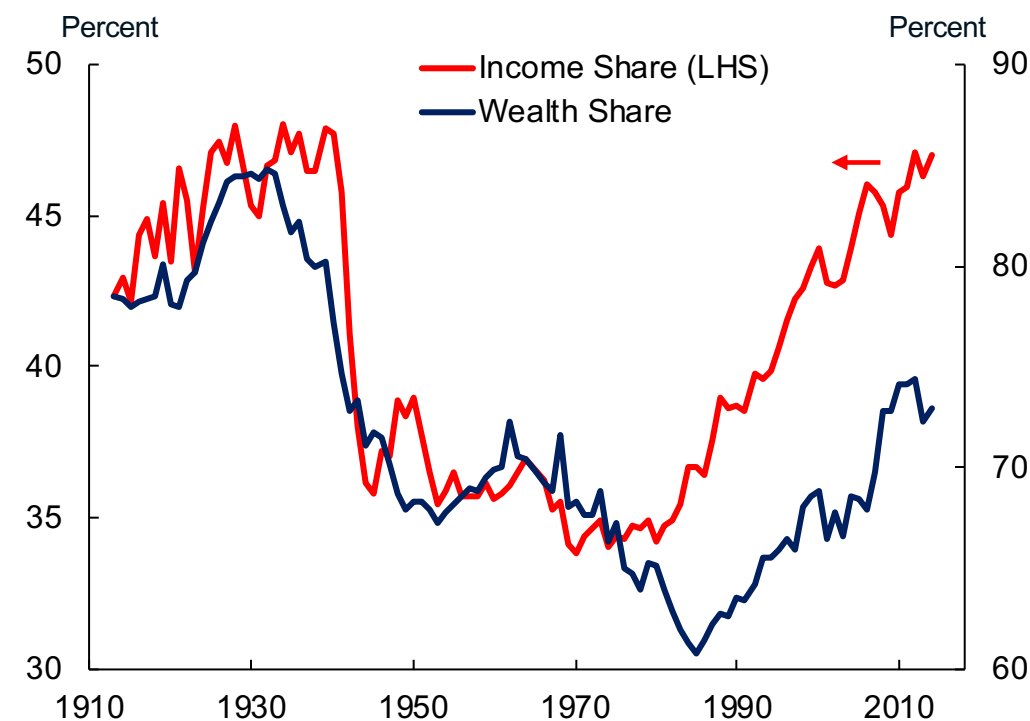
U.S. Household Wealth (Average)

As of 2019Q1

	Bottom 50%	Next 40%	Next 9%	Top 1%
	(Thousands of USD)			
Net Assets	20	574	3,484	25,014
<i>Of Which:</i>				
<i>Net Real Estate</i>	7	128	490	2,467
<i>Public Equity</i>	3	59	763	9,755
<i>Deposits & Debt Securities</i>	7	89	641	4,597
<i>Pension Entitlements*</i>	11	225	1,085	1,465
<i>Private Business Ownership</i>	2	31	364	5,539

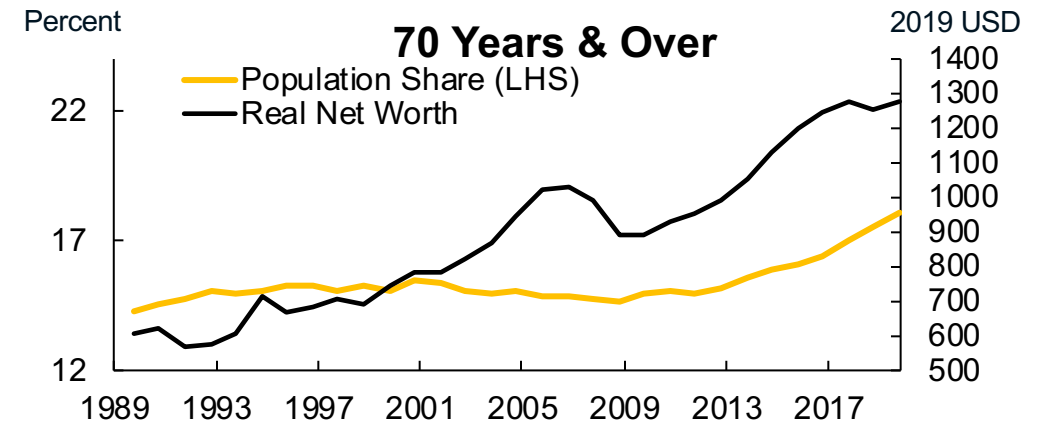
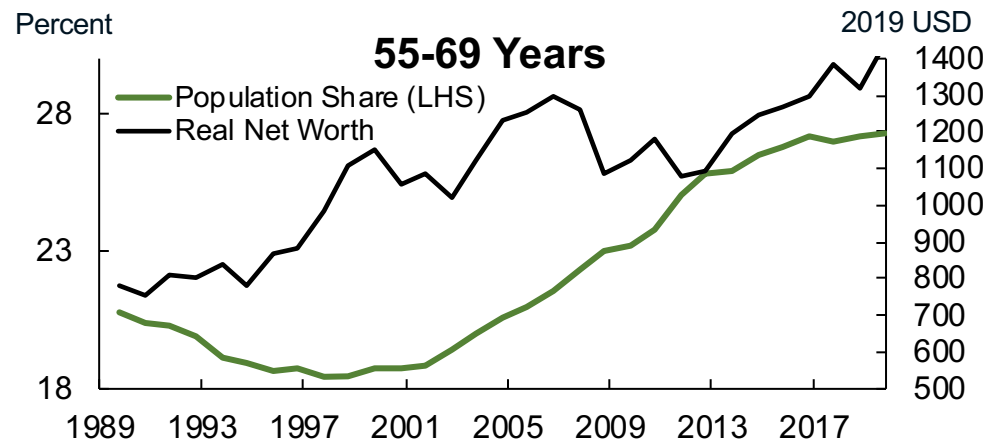
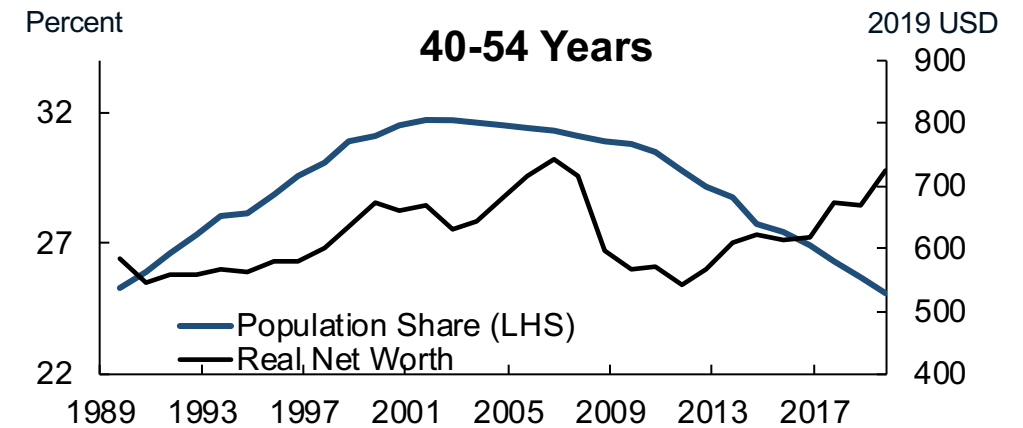
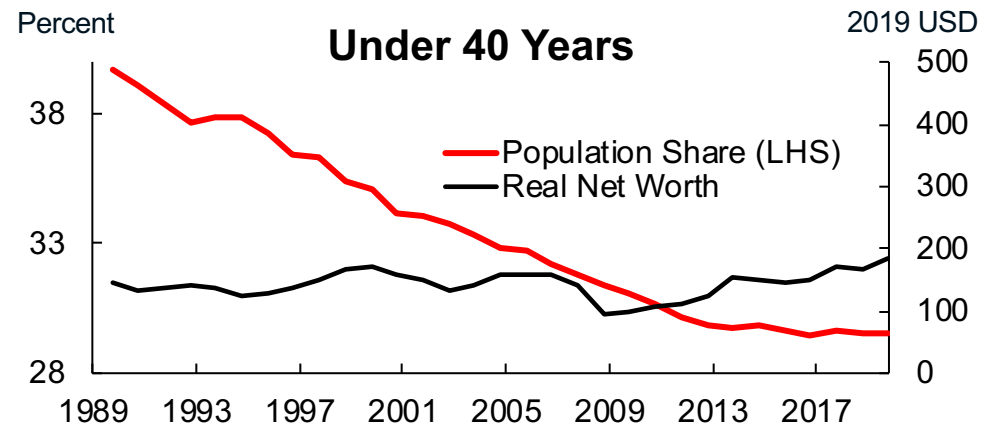
*Pension Entitlements include both defined benefit and defined contribution plans, but exclude Social Security benefits.

Income and Wealth Share of Top 10%



U.S. ECONOMIC INEQUALITY

Demographics & Household Wealth (by Age of Head of Household, 2019Q4)



U.S. ECONOMIC INEQUALITY

Older Cohorts Account for the Lion's Share of Wealth

Economic Inequality & Demographics

(by Age of Head of Household, 2019Q1)

	Under 40 Years Old	40-54 Years Old	55-69 Years Old	70 Years and Over
Net Assets (Thous. of \$)	180	714	1,392	1,258
Total Age-Group Share, Percent	6	21	45	27
Of Which:				
<i>Net Real Estate</i>	41 8	136 24	208 39	233 29
<i>Public Equity</i>	24 3	157 19	353 47	347 30
<i>Deposits & Debt Securities</i>	44 9	84 15	221 43	246 32
<i>Pension Entitlements</i>	50 7	212 25	374 48	228 19
<i>Private Business Ownership</i>	24 7	99 24	172 45	135 24

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Source: Federal Reserve Board. Note: Numbers in blue are each age-group's percent share of total holdings.

CONCLUDING THOUGHTS

Implications for the Economy and Markets. . .

- Aging population and increased inequality will likely continue to shape performance of the economy and markets.
- Both have contributed to soft growth, high saving, and low interest rates since the financial crisis.
 - The old and the wealthy both prefer stable economic and financial conditions to protect their accumulated resources.
 - But both trends may bring reduced aggregate demand and softer growth.
- Aging and inequality may stoke political instabilities, as the young and the less wealthy seek to level the playing field.
- Pensions and other long-term saving vehicles can help address the challenges presented by both trends:
 - They allow broad swathes of the population to accumulate assets and maintain their spending in retirement.

THE ROLE OF INSTITUTIONS



ACCESSIBILITY ISSUES ARE SIGNIFICANT AND IMPACTFUL

71% workers with access to a retirement plan



Part-time **40%**

Bottom wage quartile **46%**

Firms with <100 workers **55%**

Source: U.S. Bureau of Labor Statistics, National Compensation Survey. As of March 2018.

Potential increases in retirement savings shortfalls for workers with NO access to a DC plan

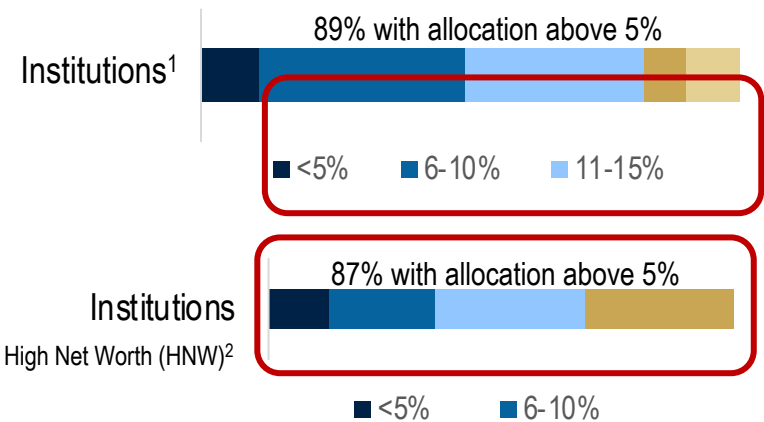
younger workers **+5.3x**

lowest income quartile workers **+1.4x**

Source: Employee Benefit Research Institute (EBRI). As of March 2019.

INCORPORATING DIVERSIFYING ASSET CLASSES

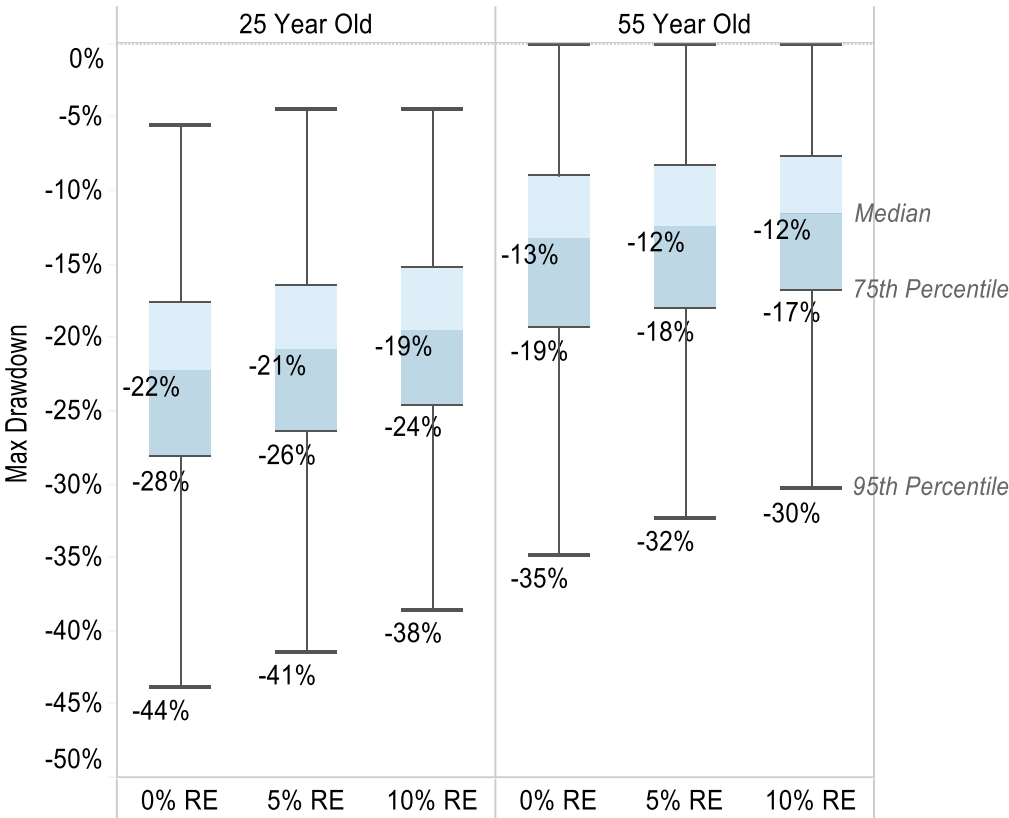
Allocations to Private Real Estate



Sources:
1. Preqin Investor Outlook: Alternative Assets, H1 2019.
2. NREI: 2018 HNWI Research Report, December 2018.

Private Real Estate Improves Portfolio Drawdowns

Accumulation Phase Projected Max Drawdowns



Source: PGIM. Hypothetical example for illustrative purposes only. Stochastic analysis using Moody's Analytics Economic Scenario Generator compared two-asset portfolios of domestic equities and fixed income with three-asset portfolios of domestic equities, fixed income, and private real estate. Projections were done for 2 different age cohorts (25 and 55) up to an assumed retirement at age 65 using 5,000 trials each. Portfolio asset allocation was modeled similar to a target-date glide path based on age. The base two-asset portfolio of domestic equities and fixed income was as follows: 85% (equities)/15% (fixed income) from age 25-35, 75%/25% from age 35-45, 65%/35% from age 45-55, and 55%/45% from age 55-65. Portfolios including private real estate held static allocations (5 and 10%) to the asset class over the glide path, coming from the existing equity allocation. Analysis is not meant for investment advice.

THEN VS. NOW

	Then	Now
Workers are growing more dependent on DC ¹	2008 Private Worker Participation: DB Only: 4% DC Only: 33% Both 12%	2017 Private Worker Participation: DB Only: 2% DC Only: 37% Both 9%
The working population is aging ²	2008 Workforce: Age 55 and older: 18.9%	2018 Workforce: Age 55 and older: 23.5%
Longevity risk is increasing ³	2008 Life Expectancy at Age 65: Men: 17.4 years Women: 20.0 years	2017 Life Expectancy at Age 65: Men: 18.1 years Women: 20.6 years
Account balances have grown significantly ⁴	2009 401(k) Average: \$46,300	2018 401(k) Average: \$103,700
Plan sponsors increasing preference for keeping retiree assets in plans ⁵	2011 Preference: 60.8%	2019 Preference: 72.3%
Plan sponsors showing greater appreciation for financial wellness ⁶	2014 Focus: 30%	2018 Focus: 65%

REGULATORY UPDATES – SECURE ACT

- Lifetime income disclosure
 - Required on annual benefit statement
 - Fiduciary relief for using model disclosure
 - DOL directed to issue model disclosure
- Lifetime income annuity provider safe harbor
 - DOL may issue guidance
 - Provision effective with SECURE Act passage

DEFINED CONTRIBUTION 3.0: A FOCUS ON OUTCOMES

<i>DC Evolution Phase:</i>	<i>1.0</i>	<i>2.0</i>	<i>3.0</i>
Plan Design	<ul style="list-style-type: none">• Do It Yourself	<ul style="list-style-type: none">• Default driven design	<ul style="list-style-type: none">• Setting and measuring broader retirement investing objectives• Investment and plan design specifically around supporting decumulation
Participant Support & Communication	<ul style="list-style-type: none">• Self-service	<ul style="list-style-type: none">• Focus on accumulating assets	<ul style="list-style-type: none">• Communicating in terms of projected retirement income• Tools and advice on how to support spend down and income sustainability in retirement
Solutions	<ul style="list-style-type: none">• Lots of Choice• Retail focus	<ul style="list-style-type: none">• Streamlined menus• Multi-asset solutions to support accumulation	<ul style="list-style-type: none">• Income-focused glide path design• Use of technology to provide more tailored advice and solutions• Institutional investment strategy• Guaranteed income to hedge unique risks in retirement

MORE INFORMATION



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