PENSION RISK TRANSFER

THE THREE PILLARS OF EXCEPTIONAL SERVICE DELIVERY

Pillar III
Consultation and Commitment

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EXECUTIVE SUMMARY

The global defined benefit (DB) pension landscape is undergoing systemic change. Ongoing funded status volatility, continuing financial market uncertainty, increasingly stringent funding and accounting requirements, and an intensely competitive business environment are reshaping DB plan sponsorship. This phenomenon is exacerbated by escalating Pension Benefit Guaranty Corporation (PBGC) premiums in the U.S. and lengthening life expectancies worldwide. When all of these dimensions are taken into account, it’s not surprising that the defined benefit pension space is primed for transformation.

On a worldwide basis, employer pension plans are causing a significant hindrance to their business strategies, and leading firms are now turning to pension risk transfer as an effective solution for freeing up capital to focus on their core business. In fact, the transfer of pension liabilities from plan sponsors to the insurance community has been escalating steadily over the past decade, with significant transitions occurring in 2012, when both General Motors and Verizon Communications engaged in groundbreaking transactions involving more than $34 billion in combined pension liabilities.

2014 brought even greater risk transfer activity, when such prominent firms as British Telecom, Motorola, Bristol-Myers Squibb and Visteon all embraced pension risk transfer solutions for their defined benefit pension plans. And more companies are expected to follow, based on the results of a 2014 Prudential survey, which found that 53% of senior finance executives say they are likely to transfer pension plan risk to a third-party insurer within the next two years.¹ As recently as 2010, this number stood at just 35%.

Firms that do engage in pension risk transfer can experience a multifaceted solution that includes enhanced risk profiles, improved strategic flexibility, reduced financial statement volatility, and a greater ability to focus on their primary business. Their retirees also benefit, as they maintain a secure retirement benefit administered by an insurance company with significant long duration investment and risk management expertise.

Executing a pension risk transfer transaction can be a complex and methodical undertaking. Collaborating with an insurer that offers a consultative, partnership-driven approach and is fully committed to exceptional customer service is critical to transaction success.

Without question, exceptional service delivery is the new benchmark in pension risk transfer, and it involves more than simply achieving baseline objectives or offering operational effectiveness. Delivering exceptional service requires a comprehensive, integrated approach that engages plan sponsors and retirees before, during and after the transaction. It also requires a profound awareness of the challenges plan sponsors and retirees face, and addresses those challenges head-on, to the customers’ complete satisfaction.

This paper is the third in a series that examines what we have identified as the “Three Pillars of Exceptional Service Delivery.” The focus of this paper is on Pillar III, “Consultation and Commitment.” It closely examines the important role partnership, collaboration and dedication play in a pension risk transfer transaction, and explores the immeasurable value of providing plan sponsors and their retirees with the consultative service and support they need.

Pillars I and II in this series focus on “Communication and Education” and “Transaction and Transition,” respectively.

Around the globe, pension volatility is the new norm. Among the many unpredictable risks confronting defined benefit plan sponsors today are:

- Financial market uncertainty
- Asset/liability mismatch
- Erratic funding requirements
- Increasing longevity

Add rising PBGC premiums in the U.S. to the equation, and the result is a burgeoning trend toward pension risk transfer. Many plan sponsors are now embracing risk transfer strategies as a means to:

- Achieve plan contribution certainty.
- Realize financial statement stability.
- Avoid potential surplus traps.
- Apply greater focus to their core businesses.
- Create a stronger, more secure foundation to honor the promises they have made to their employees and retirees.

Today, companies of all sizes are transferring pension risk, ranging from transactions under $10 million to more than $25 billion. And pension risk transfer is not a geographically isolated phenomenon. Since 2007, more than $260 billion in pension risk transfer transactions have occurred in North America, the United Kingdom and the Netherlands, with at least 40 plan sponsors transacting $1 billion or more each, and including such blue chip corporations as BMW, British Airways, General Motors, Verizon, British Telecom, Motorola Solutions and Bristol-Myers Squibb.²

In fact, more than $33 billion of global pension obligations were transferred to insurers in 2012 and again in 2014. What’s more, on September 30, 2014, the Wall Street Journal called corporate pension risk transfer “a growing trend as companies seek to unload some of the risks of running a pension plan to an insurer.” Clearly, pension risk transfer is a global phenomenon that is here to stay.

Executing a pension risk transfer transaction can be a positive, straightforward experience by following a structured process and partnering with a highly regarded insurance company. The insurer selected for pension risk transfer should offer more than just brand, products and financial strength, however. It should be skilled at working closely with plan sponsors and their advisers to provide a level of customer service that creates an extraordinary experience for all parties involved.

In the past, customer service as it applies to pension risk transfer was seen as solely an operational activity, one in which data was transferred, retirees were transitioned, payments were distributed and records were maintained. Clearly these are important functions, and are considered the minimum requirements for doing business in the retiree market.

Today however, exceptional service delivery is the new standard in pension risk transfer, and it encompasses much more than simply operational objectives. Exceptional service delivery is an aggregate experience that occurs both prior and subsequent to a transaction being executed, and necessitates a keen awareness of the issues concerning plan sponsors and their retirees.

It begins with committing the time and resources to fully understand the plan sponsor’s corporate climate and culture, as well as the employee and retiree demographics. Gaining a deep understanding of retirees’ concerns, needs and wants is vitally important, as the insurer is making a multi-decade commitment to providing these individuals with a reliable stream of payments for the full length of their retirement years. And just as important, insurers are committing to deliver the consultative support plan sponsors and retirees need to have a favorable and beneficial experience.

² Sources: LIMRA, Hymans Robertson and Prudential analysis as of June 2015.
Evaluating the insurer’s annuitant onboarding and systems capacity, service delivery expertise, and ability to understand the sponsor’s retiree population is a critical component of being successfully prepared for a pension risk transfer transaction. As the risk transfer strategy begins to crystallize, it is important for plan sponsors to articulate their organizations’ values and beliefs so insurers can deliver pertinent information that resonates with retirees in a manner consistent with their past experiences.

With customer service being such a vital element of pension risk transfer, it is understandable that the insurance company’s service delivery team is the foundation upon which a successful agreement is built. After all, it is the service delivery team that will continue fulfilling the insurer’s long-term commitment to the plan sponsor and its retirees long after the transaction has been completed.

“The service has been excellent.”

“They’ve been really good to me…Whenever I’ve had to call them, they were more than helpful.”

“The changeover was flawless and it wasn’t noticeable.”

Providing Consultative Support

What distinguishes leading insurers in the pension risk transfer space is their consultative approach. These firms aren’t simply selling products—they work closely with plan sponsors and their advisers to provide a valuable service.

Insurers skilled at pension risk transfer can help engineer a combination of solutions and timing that safeguards and delivers the promised benefits within the context of fiduciary and regulatory requirements, and within the framework of the plan sponsor’s core business.

Once an organization has made the decision to pursue a risk transfer transaction and is in the process of selecting an insurer, it must be absolutely certain that the insurer’s primary goal is to help the sponsor and its retirees experience financial security and the peace of mind that comes with it. The insurer should also have a stellar track record of ensuring plan sponsors and their retirees have an exceptional experience every step of the way, to and through the pension risk transfer transition.

During the evaluation process, plan sponsors should seek an insurer with a firm-wide focus on pension risk transfer. The selected company will have invested significantly in its pension risk transfer team and capabilities, so plan sponsors can count on receiving the highest levels of service. The insurer will be enthusiastic about working closely with sponsors and their intermediaries to create solutions for the challenges presented—working tirelessly to understand the unique features and priorities of the plan sponsor’s pension plan and retirees, in relation to its balance sheet and core business.

Plan sponsors seeking risk transfer solutions may wish to consult with an insurer that is more than just financially strong, but also able to:

- Partner with the sponsor and its advisors to help create a unique combination of solutions.
- Design and execute an innovative transaction that mitigates risk and provides lifetime income to the retirees.
- Provide experienced and effective transaction and transition teams.
- Learn about and understand each retiree group, delivering a positive and relevant experience.
- Assist and guide plan sponsors and their retirees through every step of the transition.
- Work tirelessly to ensure the transition is simple, and retirees’ questions and concerns are addressed to their complete satisfaction.

To gauge its effectiveness at delivering exceptional consultative support, Prudential recently conducted a plan sponsor experience survey using Net Promoter Scores.

A Net Promoter Score is a metric that measures customer loyalty to a particular provider (i.e., a company, employer or other entity). The score is derived by asking the customer, “How likely is it that you would recommend our company/product/service to a friend or colleague, if asked?” (In this instance, the Net Promoter Score refers to the plan sponsors’ likelihood of recommending Prudential to another individual or organization.)

“I have insurance with them too and I’ve had that for many years. Now we get the pension check...this is good.”

Scoring is based on a scale of zero to 10; with “promoters” being those who respond with a score of 9 or 10 (these respondents are considered loyal enthusiasts). “Detractors” are those who respond with a score of zero to 6, and represent dissatisfied customers. Scores of 7 and 8 are considered “passive” responses, and these only count towards the total number of respondents, but do not directly factor into the formula. Net Promoter Scores are arrived at by subtracting the percentage of detractors from the percentage of promoters.

In Prudential’s survey it was found that the level of satisfaction increases exponentially for plan sponsors once they have transacted with and transitioned to the insurer, and have been receiving consultative support for an extended period of time (in this survey’s case, one year).

As demonstrated in Exhibit 1, Prudential’s Pension Risk Transfer Net Promoter Score as it applies to mid- and large-sized plan sponsors increased significantly in 2014 over 2013, from 43 to 48.

**EXHIBIT 1:**
Prudential’s Net Promoter Score Among Plan Sponsors

![Net Promoter Score Chart]

Offering Exceptional Service Delivery

When selecting an insurer to partner with, the plan sponsor and its advisers should seek one that has leveraged its scale and experience to create award-winning service delivery capabilities. The chosen insurer’s commitment to pension risk transfer should be absolute, with a history of success that enables it to execute with confidence.

What’s more, the insurer should be recognized for providing world-class service to plan sponsors and retirees, and should maintain a culture that values customer focus, service excellence, continuous improvement and above all, integrity. Independent fiduciaries and plan consultants should have reviewed and gained comfort with the insurer’s ability to provide risk management expertise, financial strength, benefit administration excellence, and execution capabilities.

In addition, the insurer must bring credibility and unquestioned commitment to the agreement, offering the expertise of experienced transaction and transition teams. It will demonstrate the ability to work closely with clients to understand their culture, retiree population and unique challenges.

The insurer must also be welcoming, so retirees feel comfortable with the transition, and it must be approachable and responsive, ensuring that all of the retirees’ questions are addressed to their complete satisfaction.

Finally and most importantly, the insurer must have the personnel to deliver the very highest quality of customer service. Retirees have worked hard throughout their careers to earn retirement benefits, and the insurer has to work just as hard to earn their trust and confidence. The insurer should measure its success by how many retirements it has secured, how many retirees it has put at ease, and how many plan sponsors it has helped mitigate pension risk.

By listening carefully to retirees, empathizing with them, and learning from their experiences, the insurer can draw on that knowledge to improve the service it provides to both current retirees, as well as those it may service in the future.

To measure its success at delivering exceptional service delivery, Prudential recently conducted a retiree experience survey using Net Promoter Scores (in this instance, the Net Promoter Score refers to the retirees’ likelihood of recommending Prudential to another person or organization).

As with the plan sponsor survey, it was found that the level of retiree satisfaction increases significantly after they have been transitioned to Prudential and have been receiving payments, service and support from the insurer for an extended period of time (again, in this survey’s case, one year).

“[The] customer service we receive is unmatched in the industry.”

“They are good at getting my checks on time for me.”

“I get my retirement checks always on time.”

Exhibit 2 illustrates how Prudential’s Pension Risk Transfer Net Promoter Score for retirees increased substantially in 2014 over the previous year, in this instance from 26 to 37.

**EXHIBIT 2:**
Prudential’s Net Promoter Score Among Retirees

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2014</th>
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<tbody>
<tr>
<td>Promoters (9-10)</td>
<td>51%</td>
<td>54%</td>
</tr>
<tr>
<td>Passives (7-8)</td>
<td>24%</td>
<td>29%</td>
</tr>
<tr>
<td>Detractors (0-6)</td>
<td>25%</td>
<td>17%</td>
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</table>

NPS 51% minus 25% = 26  
NPS 54% minus 17% = 37

SECTION 3

Entering a Life-Long Commitment

When executing a pension risk transfer transaction, insurers are making a decades-long commitment to the plan sponsor’s retirees. They are committing to provide a dependable stream of payments for the retirees’ entire lifetimes—and the lifetime of their spouses, if applicable.

To fulfill that commitment, insurers should have extensive pension plan expertise and a long legacy of financial strength and stability. The insurer selected will demonstrate financial prowess and permanence, as well as the ability to:

- Understand the unique nature of the pension plan, participants and priorities in relation to the sponsor’s balance sheet and core business.
- Maintain ample reserves to meet all obligations.
- Offer retirees comfort in knowing their retirement payments are completely secure.

The chosen insurer should be a financial services leader worthy of trust, with a long history of listening to customers and responding with innovative solutions. The insurer must also be proficient at ensuring pension plan sponsors and their retirees have a positive and beneficial experience. In addition, insurers should work closely with advisers and their clients to develop solutions that benefit all parties for the duration of the contract.

Counted among the insurer’s key responsibilities are:

- Assuring retirees that their payments will continue without interruption, and that the insurer will be there to assist them for all the days that follow.
- Offering access to specially trained customer service professionals who are familiar with the retirees’ benefits and are focused on delivering the support they need.
- Providing pension plan expertise that ensures retirees’ payments are made on time, every time.
- Upholding a strong financial position, with ample capital and liquidity to meet obligations.

Providing retirees with the information they need and want—the way they want it—is a vital component of a successful risk transfer agreement. Supporting retirees with a toll-free call center staffed by specially trained representatives is an essential component of the transaction, and delivering access to specially designed websites that are mobile enabled and include both educational and transactional pages is also key to ensuring an exceptional retiree experience.

“They have been servicing us pretty well since they took over our pension benefit… Their communication is understandable.”

As illustrated in Exhibit 3, retirees whose payment obligations were transferred to Prudential from their former employer were asked to rate the helpfulness of the information they received from Prudential, using a scale of 1 to 10 (with 10 being the highest rating).

In 2013, 82% of retirees newly transitioned to Prudential felt that the account information they received was helpful (8, 9 or 10), while in 2014 that figure increased to 85%. When asked about the “welcome kits” they received from Prudential, 79% of annuitants said they were helpful in 2013, while just a year later, that figure surged to 88%. There were also significant increases with regard to the educational resources and the retiree website.

These trends provide another example of how delivering exceptional service can ease retiree apprehension over time, with retirees becoming progressively more comfortable with an insurer making their payments and with the tools, resources and information the insurer provides, rather than the materials they received from their original plan sponsor.

Ensuring Continuous Improvement

Before commencing a pension risk transfer venture, plan sponsors and their consultants should confirm that the insurance company they have chosen possesses a steadfast commitment to continuous improvement, and is adept at repurposing knowledge and lessons gleaned from previous transactions for the benefit of future customers.

One method for fostering continuous improvement is to invite representatives from the plan sponsor or its retiree associations to consult with the insurer’s service delivery teams. These representatives can share information about the plan sponsor’s climate, culture and communications style, which can ultimately help improve the way the insurer communicates with and services retirees and their beneficiaries.

The insurer should also provide evidence that it regularly performs employee evaluations and shares practical feedback with its customer service associates, helping ensure they are communicating effectively with the retirees they serve, and meeting or exceeding any ongoing service expectations.

Plan sponsors may also consider the insurer’s proficiency in completing pension risk transfer transactions of various scales and ranges of complexity. Partnering with an insurer that has completed several successful agreements is a sensible approach, because insurers possessing this competency can use the insight acquired from these arrangements to enhance the communication and education it offers future clients, regardless of plan size.

Insurers selected for pension risk transfer should be adept at performing retiree experience research, and should apply the findings to enhance its communication, education and transition capabilities. Frequent training and evaluation should be performed to make certain that customer service associates are meeting or exceeding expectations, and are providing retirees with beneficial information and support.

Additionally, customer service representatives should embrace the insurer’s core values and beliefs, as well as its commitment to its customers. These employees should be educated on the unique needs of the retirees, and be encouraged to contribute to an environment of continuous improvement.

Plan sponsor and retiree surveys may be conducted, and the responses leveraged to measure service level performance and satisfaction, and to upgrade informational and educational material. Client-facing employees should contact plan sponsors regularly to ascertain their satisfaction with the service and support being provided. Finally, call monitoring technology should be implemented to ensure retirees are receiving world-class customer service.

Prudential’s sharp focus on exceptional service delivery has resulted in innovative continuous-improvement initiatives like “Bring Your Parents to Work Day” and “Our Inspiration” sessions, which help identify retiree needs, preferences, interests and desires.

“Our Inspiration” is a special segment of the Prudential Service Delivery Team’s monthly town hall meetings. Created to help customer service associates better understand and support retirees, “Our Inspiration” encourages associates to openly discuss the retirees in their lives, such as their parents, grandparents, siblings or friends. These personal stories help the Service Delivery Team better understand what retirees are experiencing, and can identify ways to improve the service they receive.

Another innovation Prudential has launched is “Bring Your Parents to Work Day,” a unique event that enables employees to invite their retired parents (or other relatives) to join them at the Service Delivery Team’s Scranton, PA facility. During this day-long event, retirees share their first-hand experiences in retirement, and provide the Service Delivery Team with invaluable insight on how it can serve these individuals better. The retirees share their thoughts about retirement, including what they could have done differently to prepare, and what the companies they interacted with could have done better to make retiring easier and more rewarding.
The work Prudential has completed around “Our Inspiration” and “Bring Your Parents to Work Day” has helped the firm move away from being just an annuity provider, to being a valued and trusted service provider. The fruits of these efforts are illustrated in Exhibit 4, which shows the year-over-year levels of satisfaction retirees have experienced in transitioning from their former employer’s pension plan to Prudential.

**EXHIBIT 4:**

Prudential's Performance vs. Previous Provider's

<table>
<thead>
<tr>
<th>Year</th>
<th>Performance is Better</th>
<th>Performance is Same</th>
<th>Performance is Worse</th>
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<tbody>
<tr>
<td>2013</td>
<td>19%</td>
<td>74%</td>
<td>7%</td>
</tr>
<tr>
<td>2014</td>
<td>36%</td>
<td>60%</td>
<td>4%</td>
</tr>
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There are certain measures plan sponsors can take to help ensure a pension risk transfer agreement goes smoothly, if and when a buy-out solution is implemented. They can start today by getting their data and plan governance processes in good order, and by conducting initial high-level feasibility assessments of potential risk transfer transactions.

Pension plan sponsors may find that their boards of directors are eager to learn more about the strategies and costs of completing a buy-out solution. With the costs of maintaining pension plans rising and market volatility showing no signs of abating, the expectation is that more organizations will turn to risk transfer solutions as a means to achieve financial statement stability and a greater focus on their primary business.

When embarking on a risk transfer effort, plan sponsors will be well served by partnering with insurers that have demonstrated the ability to onboard large groups of retirees seamlessly, and to provide those retirees with an exceptional experience before, during and after the transition.

As leading insurers in the pension risk transfer space know, heightened levels of client satisfaction can only be achieved after first gaining a deep understanding of each client’s specific goals and concerns. These innovative insurers offer an extensive range of products and services, all designed to meet the needs of plan sponsors seeking to mitigate the pension risk on their balance sheets. Insurers demonstrating superior pension plan expertise—and those boasting highly skilled transaction and transition teams—will continue to distinguish themselves in the growing pension risk transfer marketplace.

The most indispensable partners for pension risk transfer are those insurers that rise above standard operational effectiveness. These leading insurers collaborate with plan sponsors long before, and well after, the transaction has taken place. They have cast off a purely operational lens and committed themselves to a consultative partnership that creates an immensely advantageous experience for all parties involved.

For more information about the importance of the customer experience in a pension risk transfer agreement, please visit pensionrisk.prudential.com.

“I have never had a problem and the transition was seamless.”

About Prudential

Prudential is the established leader in financial, systems and human resources capacity—so much so that we were able to onboard more than 150,000 General Motors and Verizon retirees in a compressed time frame without missing a single benefit payment.

We welcome new clients to Prudential with superior service that creates a unique, market-leading experience. Prudential’s ability to onboard and administer a vast number of annuitants, seamlessly and without payment interruption, is unsurpassed.

Prudential’s Service Delivery Team is the most proficient and accomplished in the industry. We honed our ability to welcome individuals to Prudential through four large and complex pension risk transfer transactions, as well as 38 smaller—but equally important—agreements.

Prudential Retirement at a Glance

- **Participants and annuitants served**: 4,000,000
  - Provided by Prudential Retirement® as of **December 31, 2014**
- **Annual defined benefit payments**: 10,400,000
  - Provided by Prudential Retirement as of **March 2, 2015**
- **Annual defined benefit gross payments**: $9,000,000,000
  - Provided by Prudential Retirement as of **December 31, 2013**
- **Calls handled by our Participant Service Center**: 2,300,000
  - Provided by Prudential Retirement as of **December 31, 2014**
Prudential has used its scale and experience to create an award-winning service delivery capability.

**COMMITMENT** Knowing the importance of communication, we create a straightforward experience that occurs in print, online and by phone. We work tirelessly to ensure the transition is simple and that annuitants’ questions and concerns are addressed every step of the way. We are absolutely focused on delivering the information and support annuitants need.

**REASSURANCE** Our approach highlights Prudential’s long history of pension plan expertise, bolstering annuitants’ trust that their benefit payments are safe and secure. We make it clear that Prudential is honored and committed to providing their payments seamlessly and without interruption.

**SUPPORT** Annuitants are supported by a toll-free call center staffed by specially trained representatives who are available Monday through Friday, from 8 a.m. to 9 p.m. ET, including a toll-free number for the hearing impaired. Prudential also provides an annuitant website, which includes both educational and transaction pages.

**EXPERTISE** Prudential is experienced at paying retirement benefits and has been providing pension plan services for nearly 90 years. Our dedicated staff and state-of-the-art payment system disburses over 10 million benefit payments annually, representing more than $9 billion in total annual defined benefit payments.

**LEADERSHIP** Prudential’s leadership position in the group annuity marketplace enables us to deliver cost-effective, scalable service solutions that benefit all of our clients, regardless of size. We are experienced at paying retirement benefits and have been providing pension plan services since 1923.

**INNOVATION** Prudential has been at the forefront of the industry’s most innovative service solutions. We are committed to providing an exceptional client experience and have invested in our operational and administrative infrastructure to deliver the highest level of service.

**RECOGNITION** We are honored that *Chief Investment Officer* magazine has presented Prudential with the Industry Innovation Award for four consecutive years, and that the League of American Communications Professionals (LACP) has recognized our annuitant communication materials as being among the best in the industry.

We believe that superior levels of customer satisfaction can only be achieved after first developing an understanding of each client’s unique needs. We have a long history of providing defined benefit pension plan services supported by a staff with market-tested expertise.

“*I’ve been very satisfied with my pension money that I keep getting every month. I am satisfied because I certainly earned it. I worked for 50 years.*”

For additional information including product limitations, terms, conditions, and exclusions, please contact Glenn O'Brien at 860-534-2440.

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