



SMALL MARKET PAYROLL DEDUCT IRA

Research and Design Phase

May 2nd 2017

AGENDA

- 1 Opportunity Overview
- 2 Insights
- 3 Fruitful
- 4 Key considerations

1

Opportunity Overview

How might we design a new, profitable retirement offering for small business employees that enables Prudential to enter the small business retirement market and positions us to win California's retirement mandate?

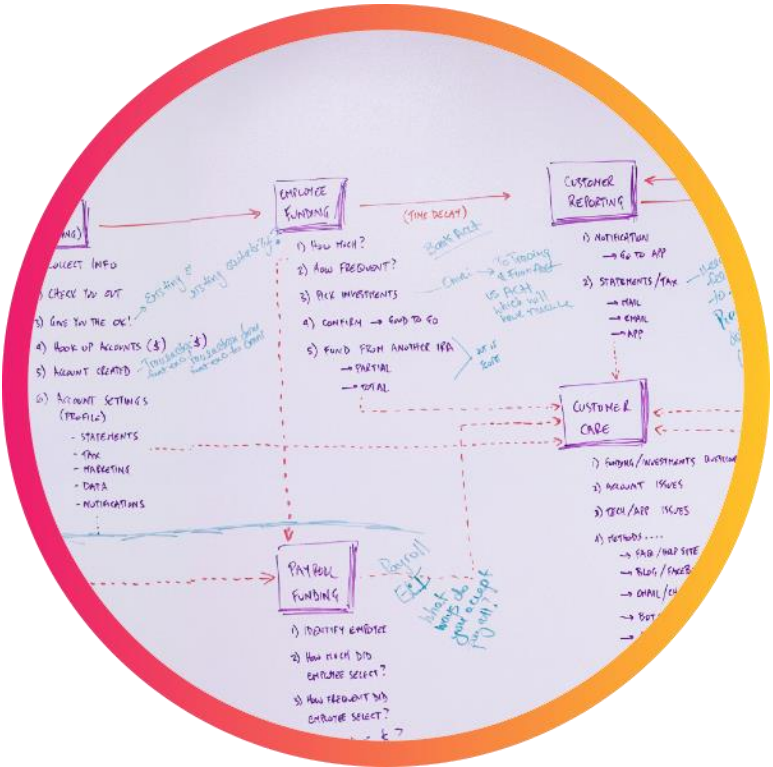
DESIGN THINKING PROCESS



WE LISTEN
AND
OBSERVE



WE
BUILD TO
THINK



OUR PROCESS
IS ITERATIVE
AND
CYCLICAL

¹
The small business cohort is underserved and does not have a safety net.

LOW INCOME

The small business cohort has startlingly low annual incomes; the average salary of California's small business employees is \$35,000 and the median is \$23,000.

Source: (Overture Financial's "Final Report to the California Secure Choice Retirement Savings Investment Board").

IMMEDIATE NEEDS

They face financial challenges more immediate than planning for their future financial health; their priorities are more aligned with saving for healthcare or an emergency fund than a retirement plan.

RETIREMENT NOT AN OPTION

Furthermore, they struggle with the concept of "retirement" because they do not believe that financially they will ever be able to fully retire.

2

**The small business
market is fragmented
and complicated to
serve.**

MANY ARE ELIGIBLE

The opportunity is significant with 300,000 small businesses (and about 6.7 million individuals) that will be eligible for the California plan.

HIGHLY FRAGMENTED

However, this market is highly fragmented across industries, geographies, skills, languages, demographics, and type of employment.

VARIED APPROACHES

Additionally, small business owners have varied approaches to technology and managing their businesses. While some choose to outsource payroll and other human capital management functions, others manage these responsibilities in house with various software packages, excel, and even paper documents and checks.

3
**The competitive
landscape is
challenging.**

WELL- POSITIONED COMPETITION

Providers of small business services are well positioned to extend their offerings with a retirement product. Amongst these service companies, payroll providers are best suited to win given the benefit of payroll integration with this product.

ROBO- ADVISORS

Robo-advisors are also important competitors to consider as they are not only are comfortable with small balances, but also fiduciaries, providing welcomed advice.

INCUMBENT S IN THIRD

Traditional retirement players are in a distant third place as they will struggle to be profitable unless they significantly lower their cost to serve.

SUMMARY

The small business cohort is underserved and does not have a safety net.

The small business market is fragmented and complicated to serve.

The competitive landscape is challenging.

“When I hear the word retirement, I think about being alone, unprepared and worried...A better name for retirement would be the end of the line because I don't know what will happen.”

SOPHIE

Small business employee

HOW WE WIN

SHRINK A BIG
GOAL INTO A
DAILY
AFTERTHOUGHT.

How?

Default to opt-out.

Make it natural.

Make it real.

ILLUMINATE
ONE STEP AT
A TIME.

How?

Extend the timeline.

Create habits.

Find the intervention moments.

INSPIRE
CONFIDENCE.

How?

Validate their choices.

Build confidence.

Add positivity.

2

Insights



1 EMPLOYER

Small businesses are the engine of our economy, but owners feel overlooked and unsupported.

“Both my business partner and I, we're not MBAs. We didn't go to business school, we didn't have any retail experience before this, we kind of just started and winged it, you know?”

PETER

Cutting Edge Performance Parts



2 EMPLOYER

When it comes to regulation, small business owners are jugglers, and the state keeps adding more balls.

“You don’t want to be caught up and break the law when you don’t know what laws there are to break”.

JULIANA

Priority Architectural Graphics



3 EMPLOYER

Choosing the right small business tool means balancing the convenience of interoperability with the power of customization.

“I'm a big proponent of getting it all in one suite, versus trying to get like five different products, and trying to make them work together. If they are all integrated together, great.”

PETER

Cutting Edge Performance Parts



1 EMPLOYEE

For this community of small business employees, investing in the future seems illogical.

“I tend not to pay so much attention to savings. I'm more like living in the moment just trying to save what I need to save right now. I'm paying bills so I guess I'm not really thinking about my later life right now.”

MARK
Small Business Employee



2 EMPLOYEE

Taking action on your financial future feels like an overwhelming commitment that people rarely go at alone.

“Can I compare? Can I contrast plans? Again, what's the most popular? I would have to have some sort of guidance.”

RAMIA
Small Business Employee



3 EMPLOYEE

Compared to a bank, retirement funds seem risky and rigid.

“Are you guaranteed, could there be a chance that you get less than what you actually put in? See, the money in the bank, you can keep it, because you know that's gonna be guaranteed. It's a gamble, but then you go to Vegas, too, and gamble there. I'd rather go to Vegas and spend a night there on the table.”

LUKE

Small Business Employee



EMPLOYER

Small businesses are the engine of our economy, but owners feel overlooked and unsupported.

EMPLOYEE

For this community of small business employees, investing in the future seems illogical.

When it comes to regulation, small business owners are jugglers, and the state keeps adding more balls.

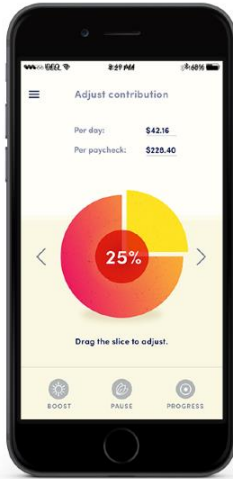
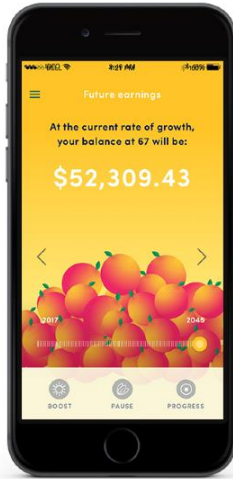
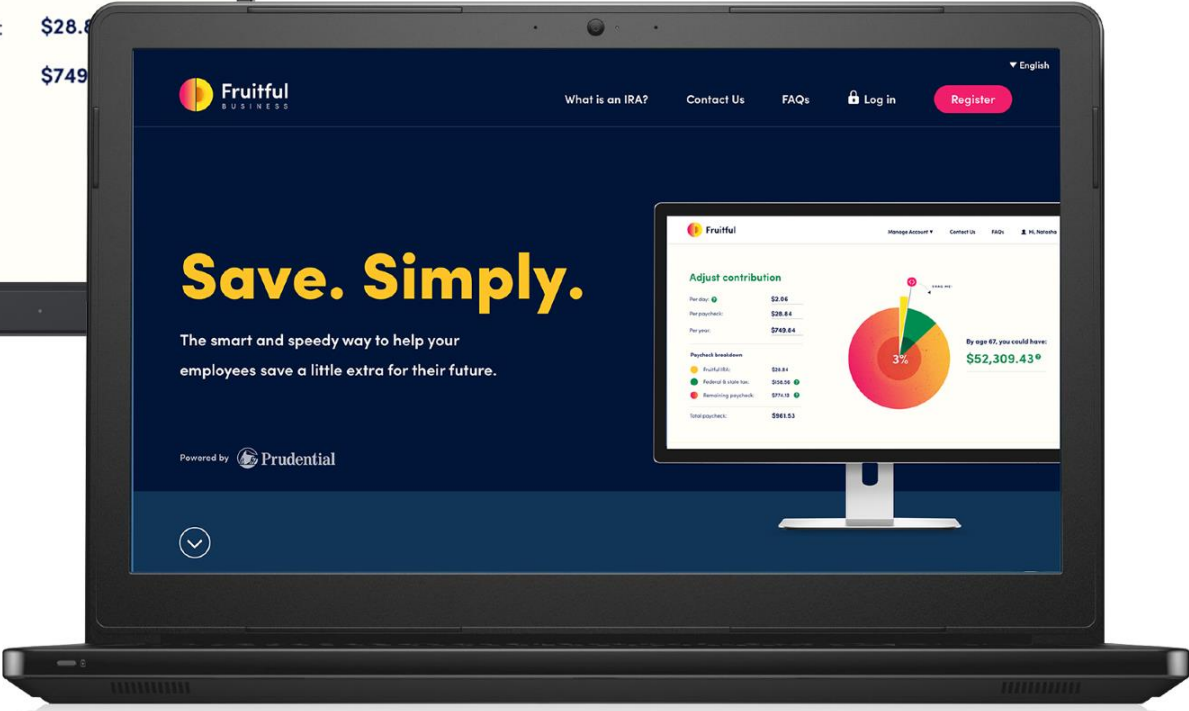
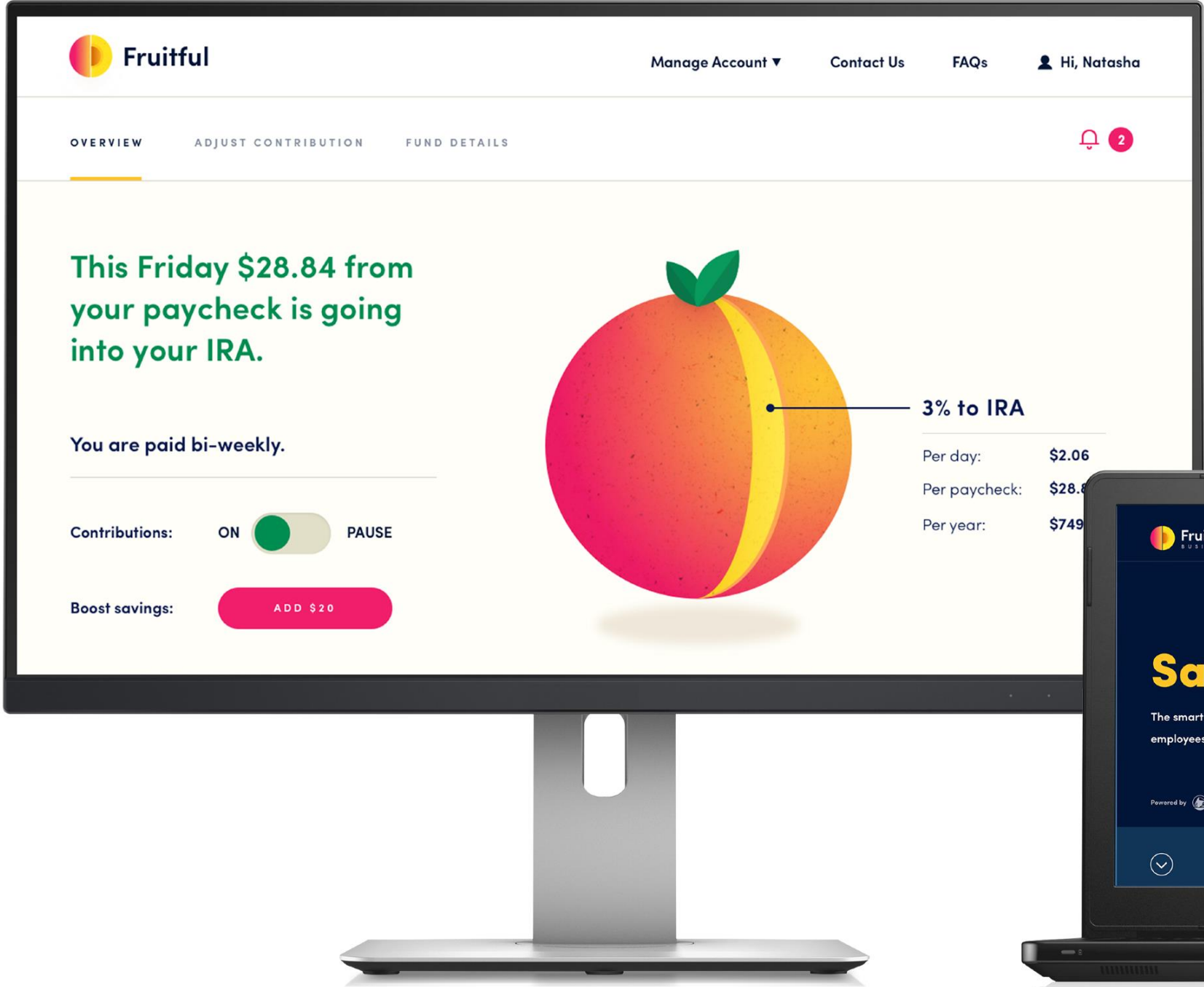
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3

Fruitful



Introducing **Fruitful by Prudential, the only small business retirement plan designed to provide an effortless onramp, so that saving for your future becomes second nature.**

KEY DESIGN ELEMENTS

Start with real data

DESIGN PRINCIPLE

Make it real.



KEY DESIGN ELEMENTS

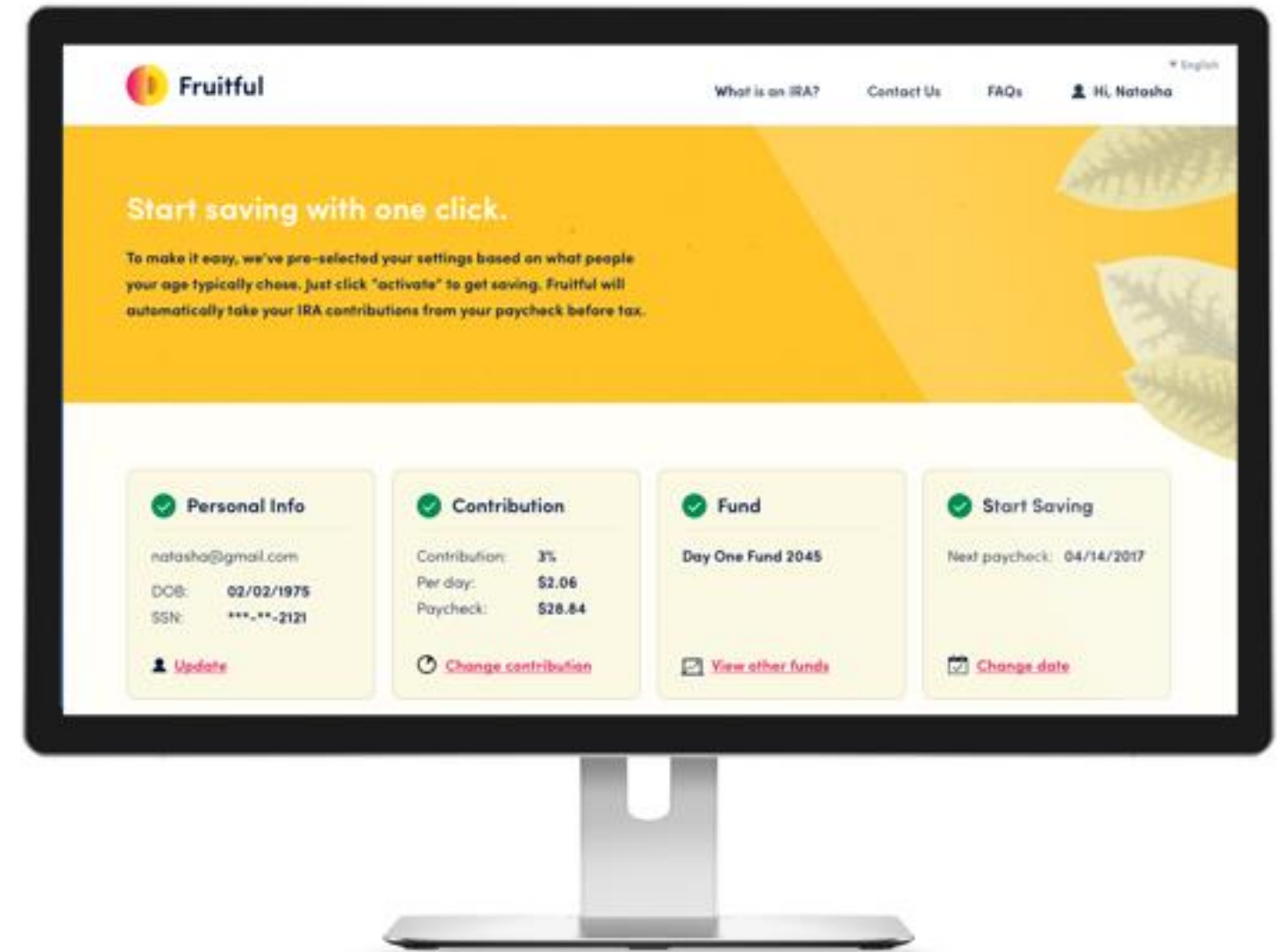
Quick onboarding

DESIGN PRINCIPLE

Default to opt-out.

Make it natural.

Make it real.

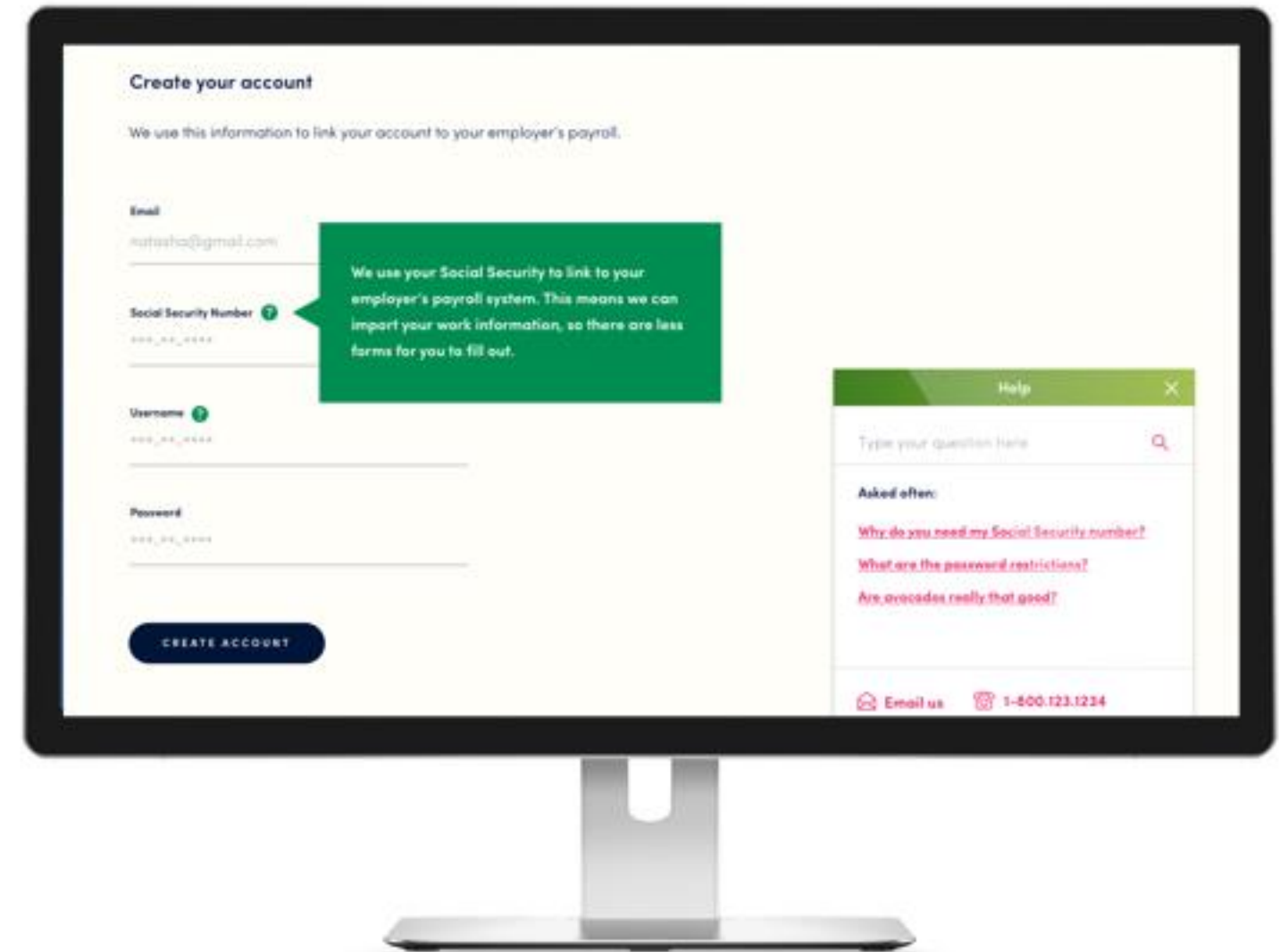


KEY DESIGN ELEMENTS

Help always on-hand

DESIGN PRINCIPLE

Find the intervention moments.



KEY DESIGN ELEMENTS

Signature interactions

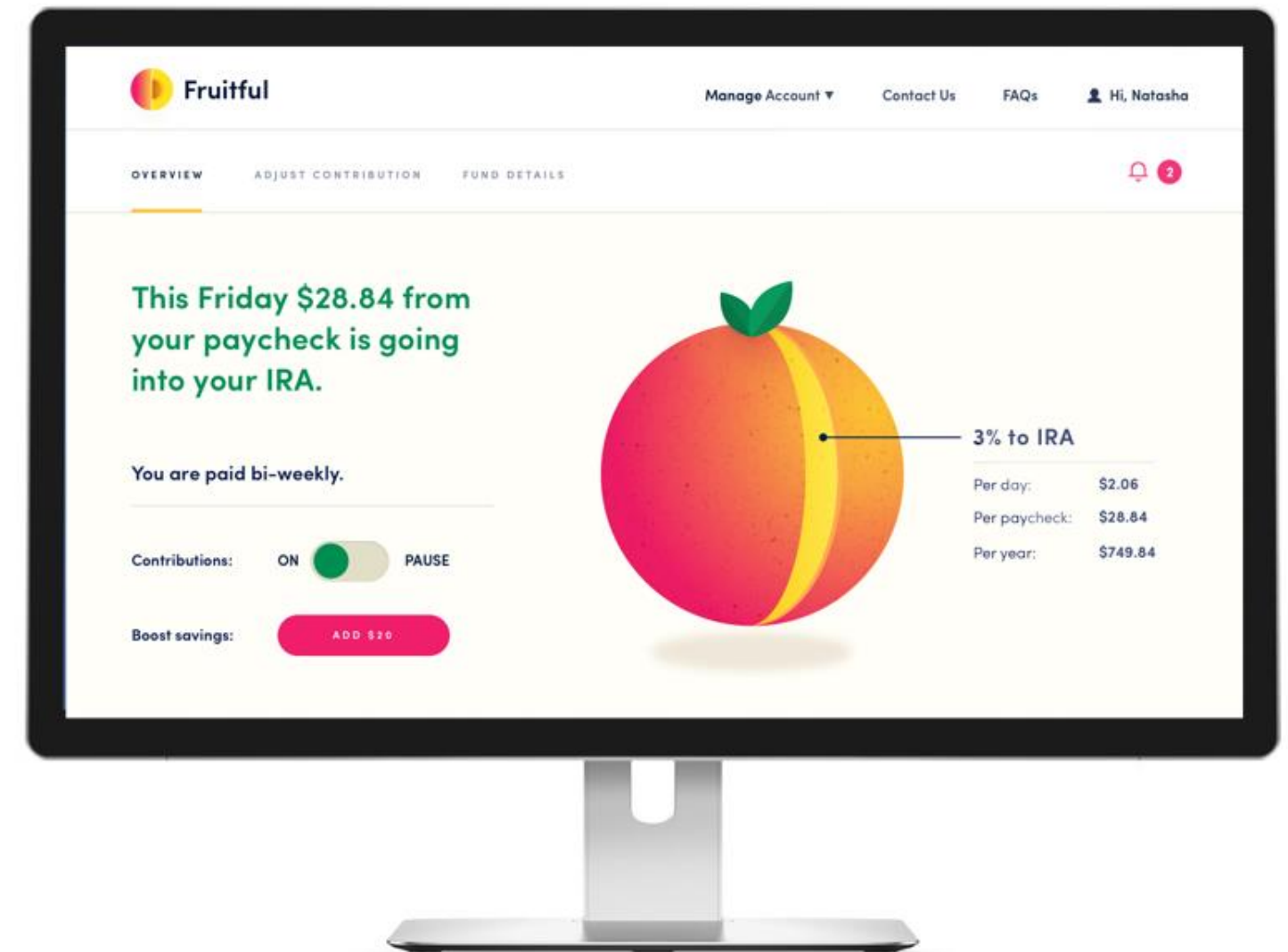
DESIGN PRINCIPLE

Validate their choices.

Build confidence.

Add positivity.

Create habits.

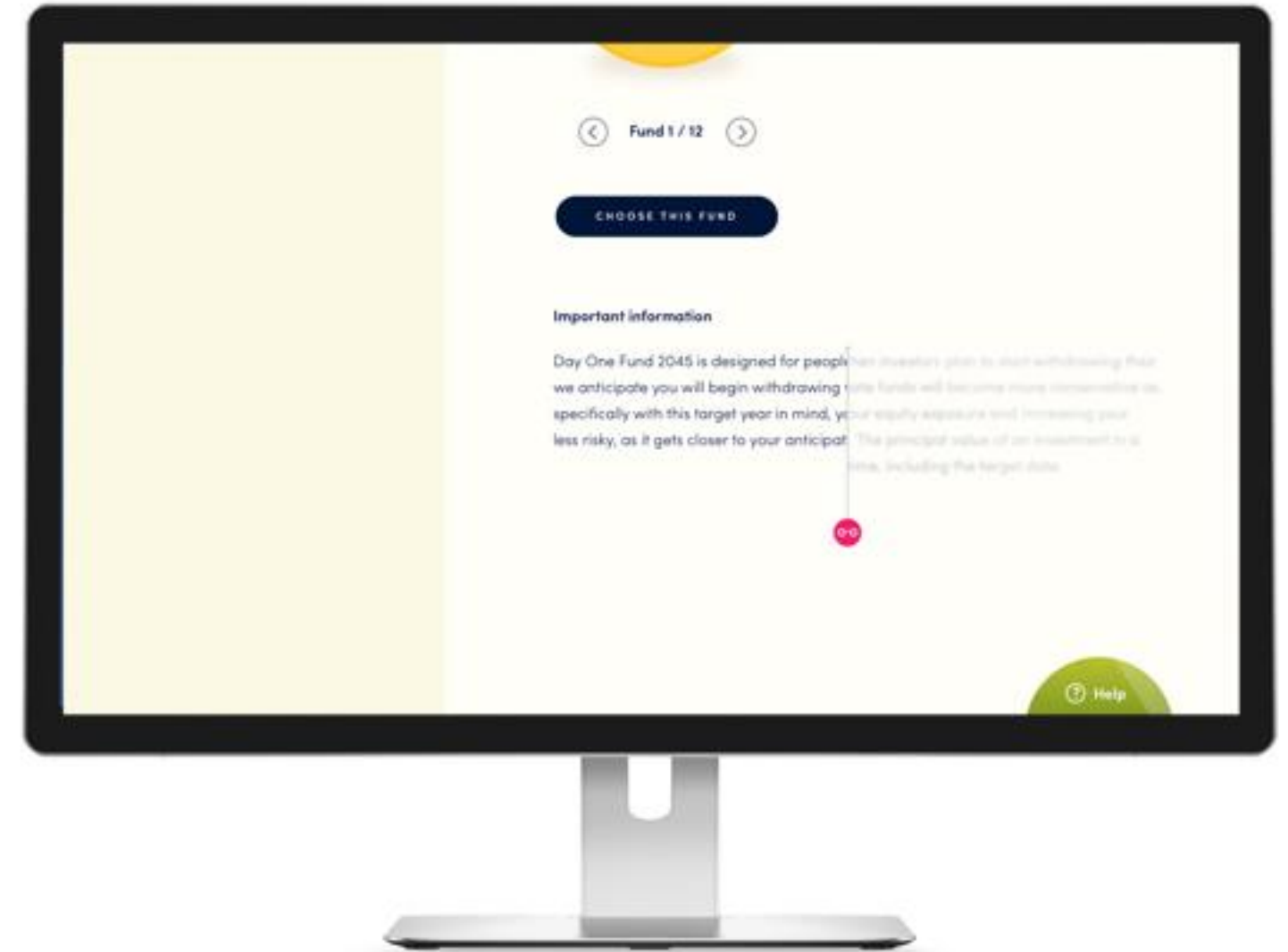


KEY DESIGN ELEMENTS

Simplification

DESIGN PRINCIPLE

Make it natural.



FRUITFUL EMPLOYEE DEMO



KEY DECISIONS & POINTS OF VIEW

ADVICE

We maintained Prudential's position on not being a fiduciary. However, we believe this may be a limiting decision given the cohort's low financial literacy and competitors including robo-advisors who are providing advice.

PAYROLL INTEGRATION

We designed for a manual payroll because Prudential currently lacks partnerships with the leading payroll providers and there is a large manual payroll segment that we need to accommodate regardless. However, we believe both manual and integrated payroll solutions will be required to win California.

EDUCATION

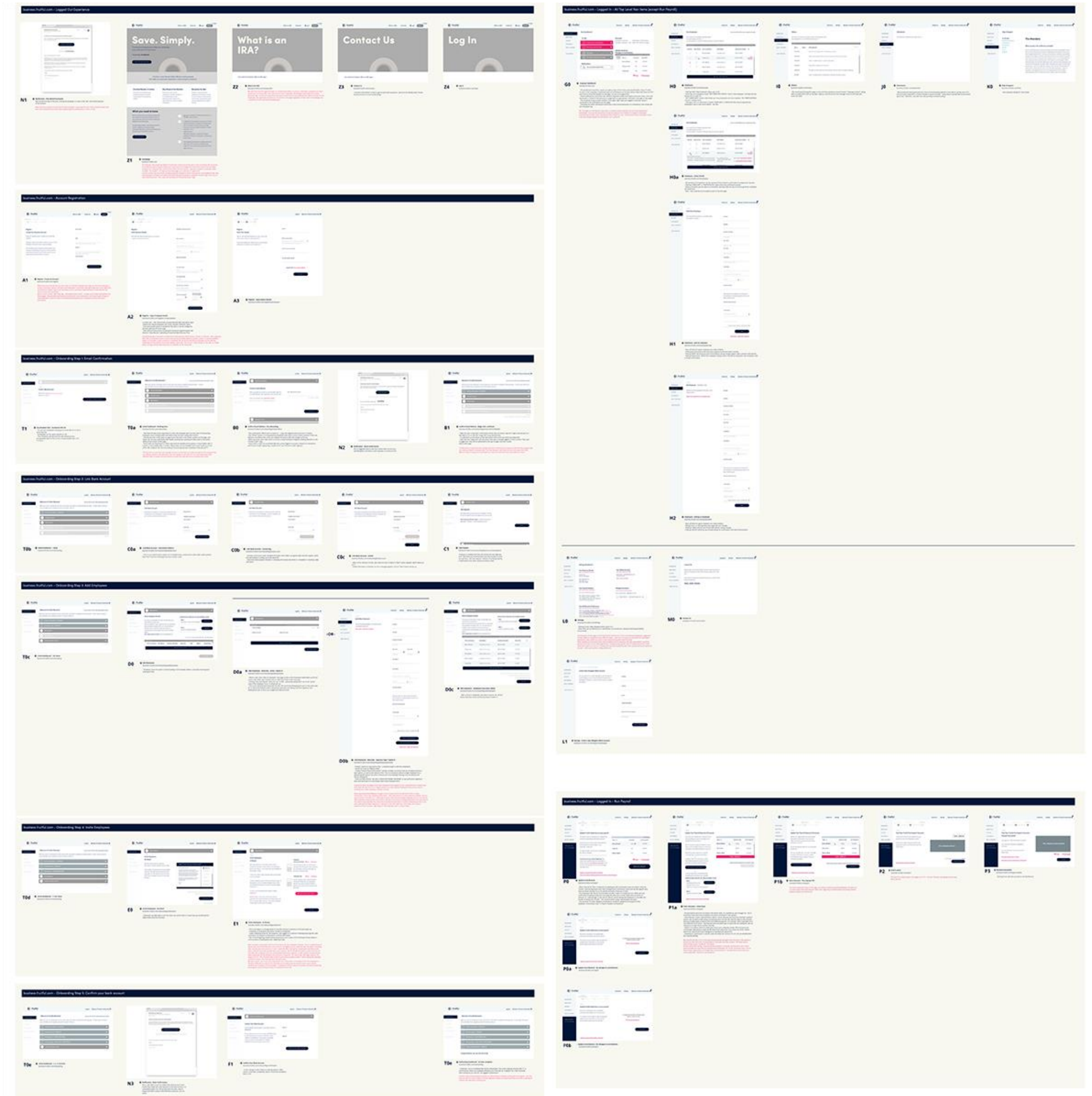
Financial education often provides more questions than answers, just adding further the feeling of insecurity, which can result in attrition.

TYPE OF IRA

Payroll deduct traditional IRA We chose the traditional IRA to prototype for the Pilot because it doesn't not prohibit participation based on income levels and is the most inclusive solution.

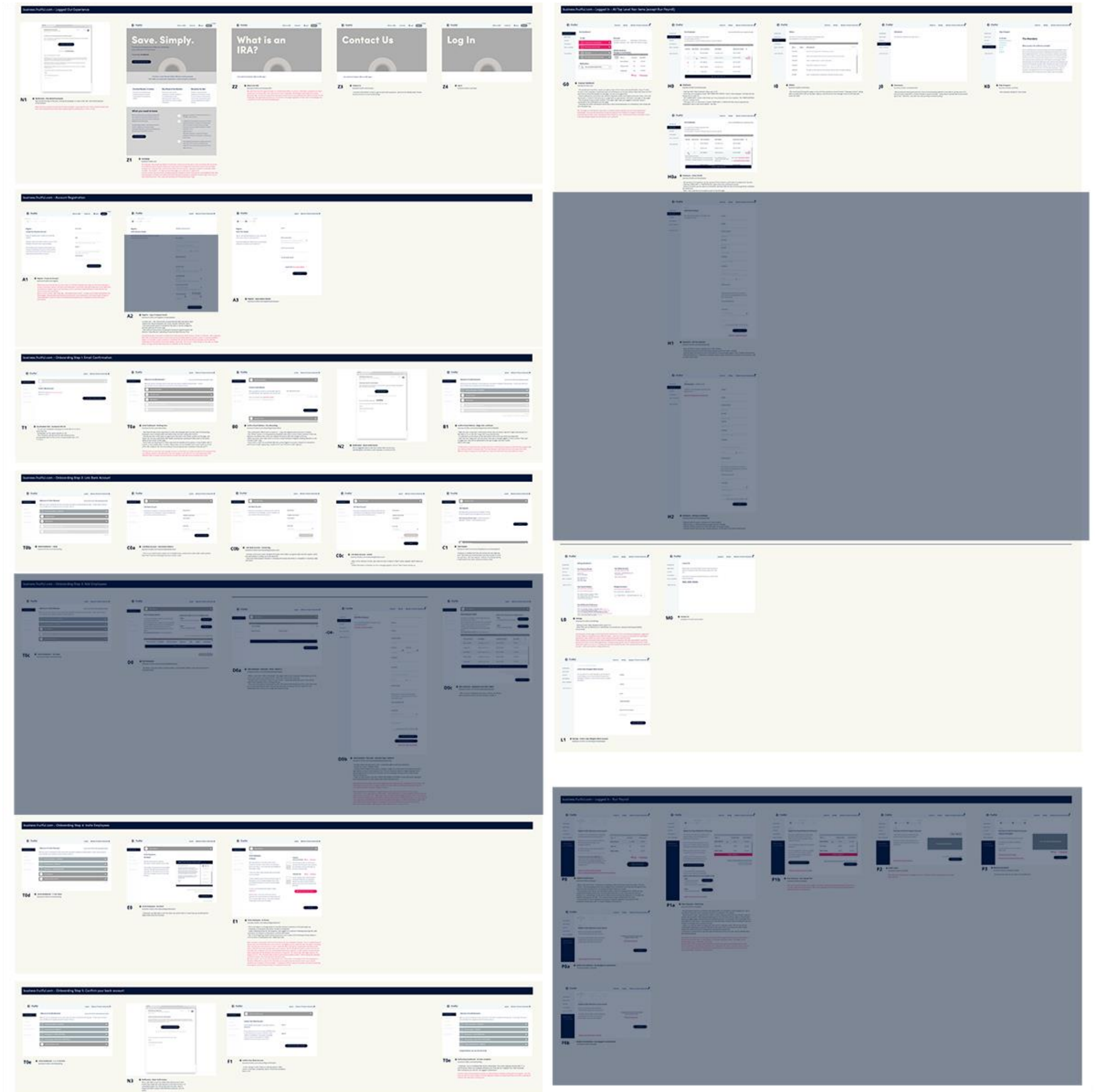
PAYROLL INTEGRATION REMOVES THE BURDEN FROM EMPLOYEES

All Employer wireframes with
manual payroll integration.



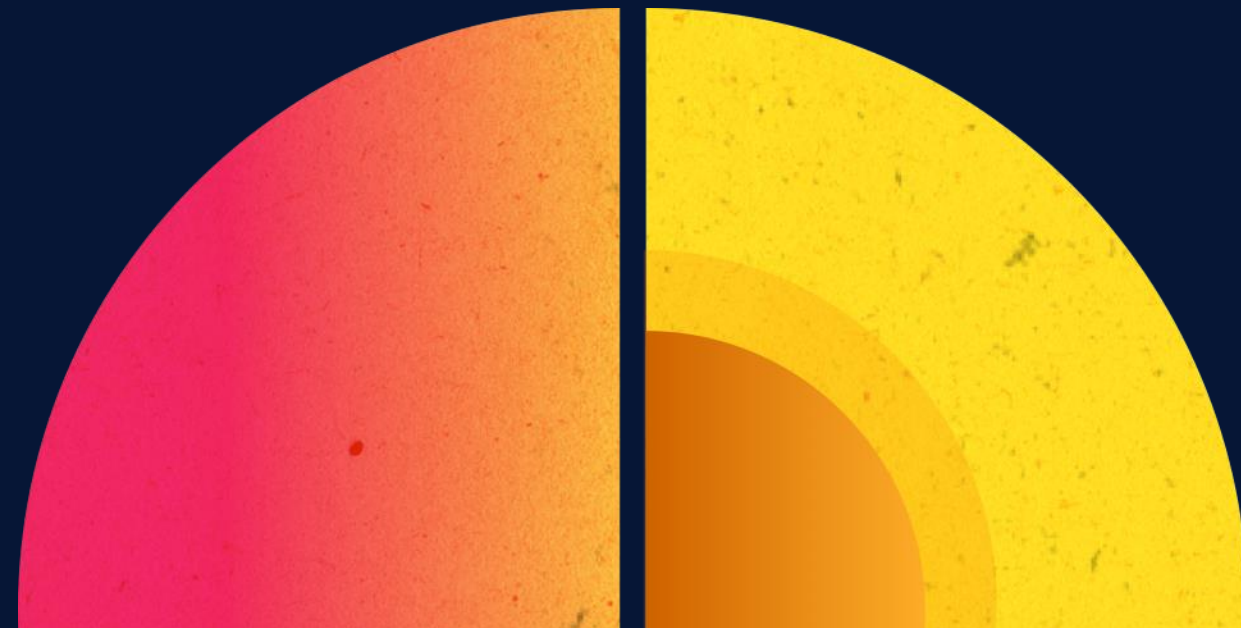
PAYROLL INTEGRATION REMOVES THE BURDEN FROM EMPLOYEES

Payroll integration eases the burden on employers in initial onboarding and in every payroll cycle thereafter.



4

Key considerations



How do we
make this real
for the pilot?

NEXT STEPS FOR THE PILOT

Assign a Product Developer and Owner

Choose a firm for front end build

Decide on Integration Partners

Establish Customer Care for tech related questions

Establish Customer Care for investment related questions

Craft a communication strategy

INVESTMENT

Build **\$1.5-2M** (high level estimate)

+ Additional cost if integrating internally

Ongoing tech support/Maintenance: **\$200K annually**



Reasons to pursue:



|KEY CONSIDERATIONS|

THERE IS A
REAL NEED

There is no easy access to long term savings for this cohort of people

VALUABLE
DATA

We could gather data on a market we are not familiar with to potentially pivot and serve other needs

PARTNER-
SHIPS

We can learn how to partner w/3rd parties and try to lower our cost to serve

IT IS
FLEXIBLE

We can pivot the offering to a new DTC IRA product (with front-end adjustments)

LEVERAGEABLE
BACK END

We could build an API back-end that future services can use

The background features four stylized leaf graphics. In the top-left corner is a yellow leaf. In the top-right corner is a white leaf with a green vein pattern. In the bottom-left corner is a green leaf. In the bottom-right corner is a yellow leaf. The central text is positioned between the top and bottom leaves.

Reasons to reconsider:

|KEY CONSIDERATIONS|

Is this a market we should pursue?

Low salaries
Low financial literacy
High fragmentation

Is regulation a deterrent?

Ambiguous ERISA regulations may prohibit expansion to other states

How can we compete and be profitable in this space?

Involves high investment in technology to be profitable with low account balances

May need integration or purchase of payroll provider

Thanks!



The Lab @ Prudential
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