

# DC Plan Demographics: Key Participant Behaviors That May Impact Retirement Success

**Peter T Walsh**

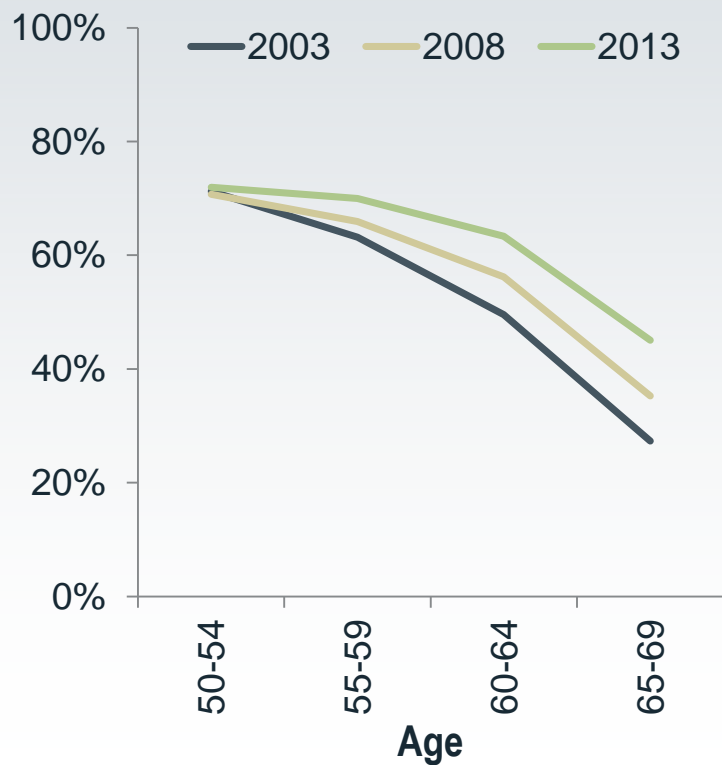
*Institutional Portfolio Manager*

*Global Asset Allocation*

# Participants are Retiring Later

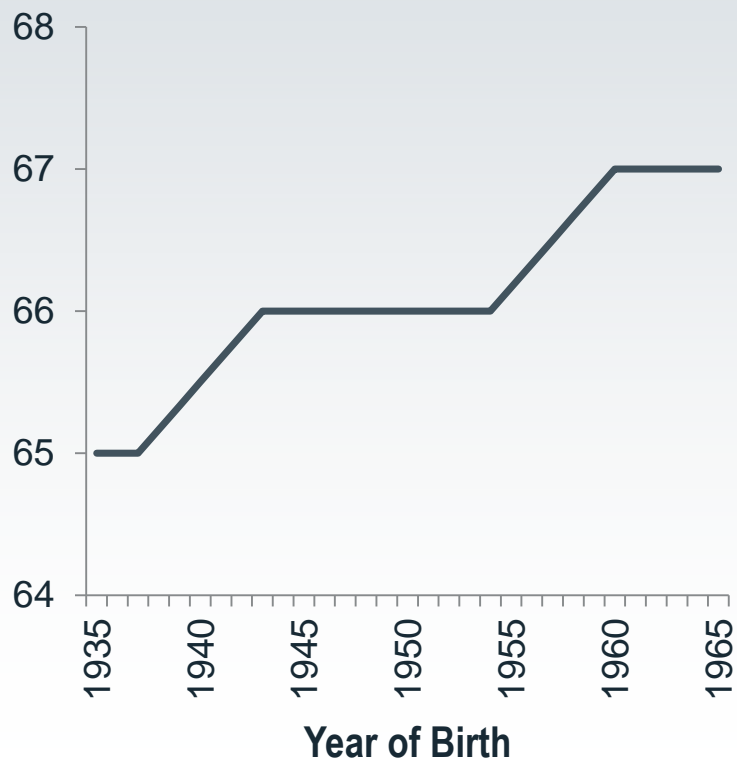
## Working Longer...

Percent Active



## ...Receiving Full Benefits Later

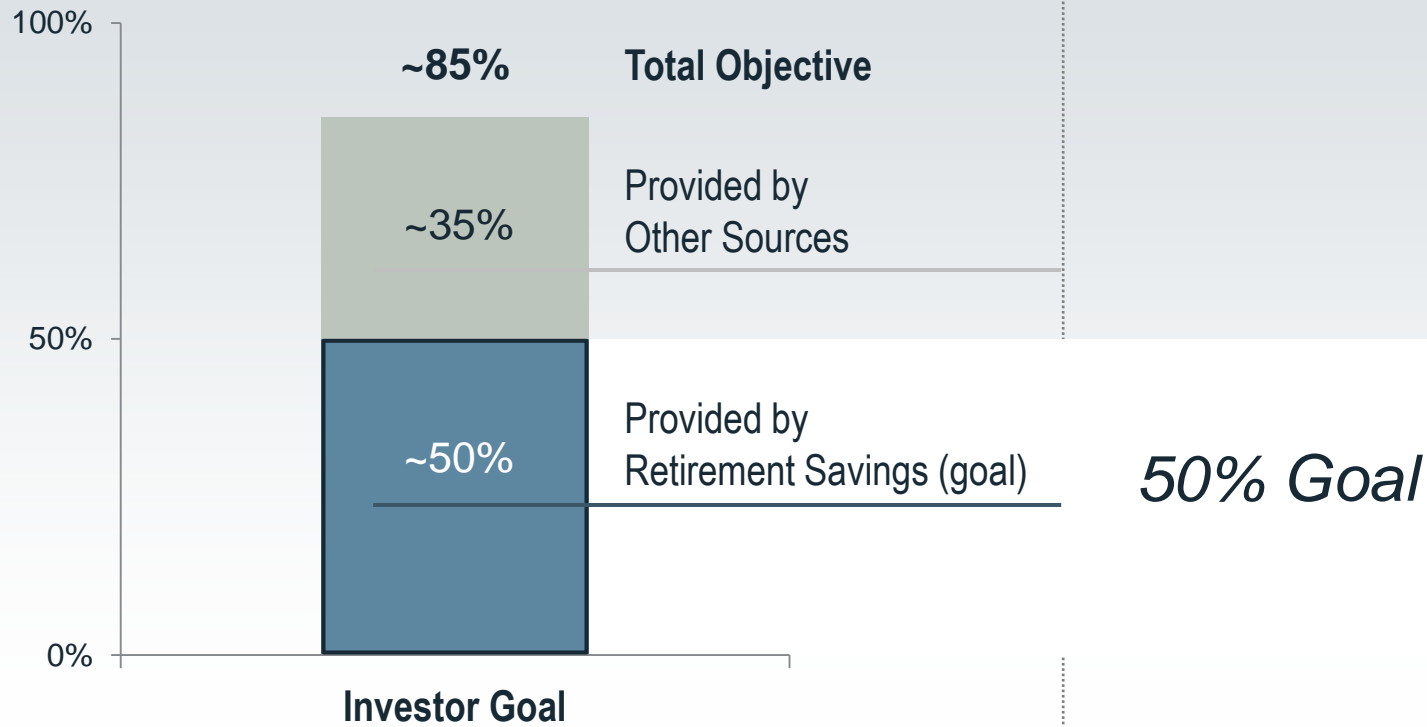
Age of Full Benefits



Source: Informed by millions of participants from Fidelity Recordkeeping Data as of 6/30/2013 (left chart), and the U.S. Social Security Administration (right chart).

# DC Plan: Real Income Replacement Goal

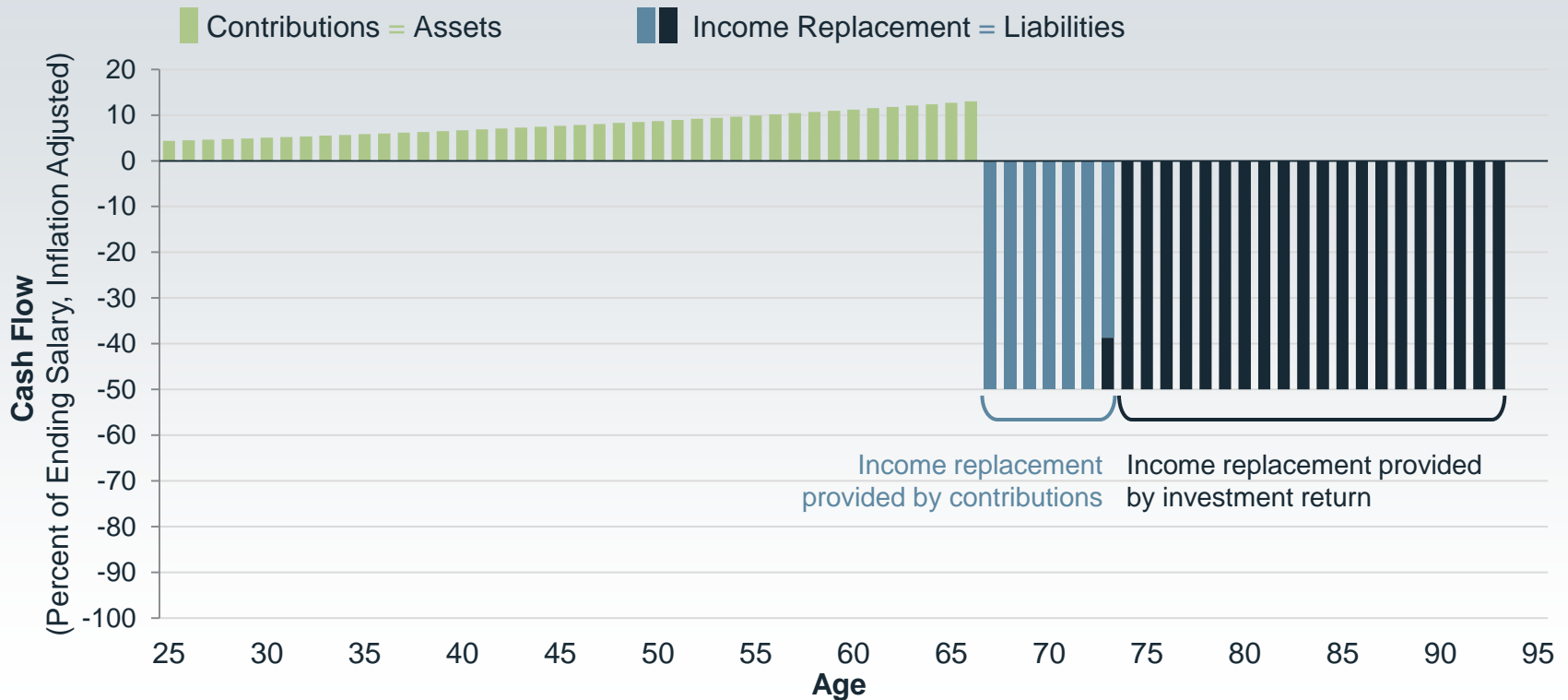
## Income Replacement Needed to Maintain Standard of Living



The 85% replacement rate is for a hypothetical average employee and may not factor in all anticipated future living expenses or needs, such as long-term care costs. An individual's actual replacement ratio may vary from this income-replacement rate as each individual's experience and circumstances are different.  
Source: Department of Labor, Consumer Expenditure Survey 2011.

# Investment Challenge

## Contribution and Income Replacement Example (real, percent of final salary)

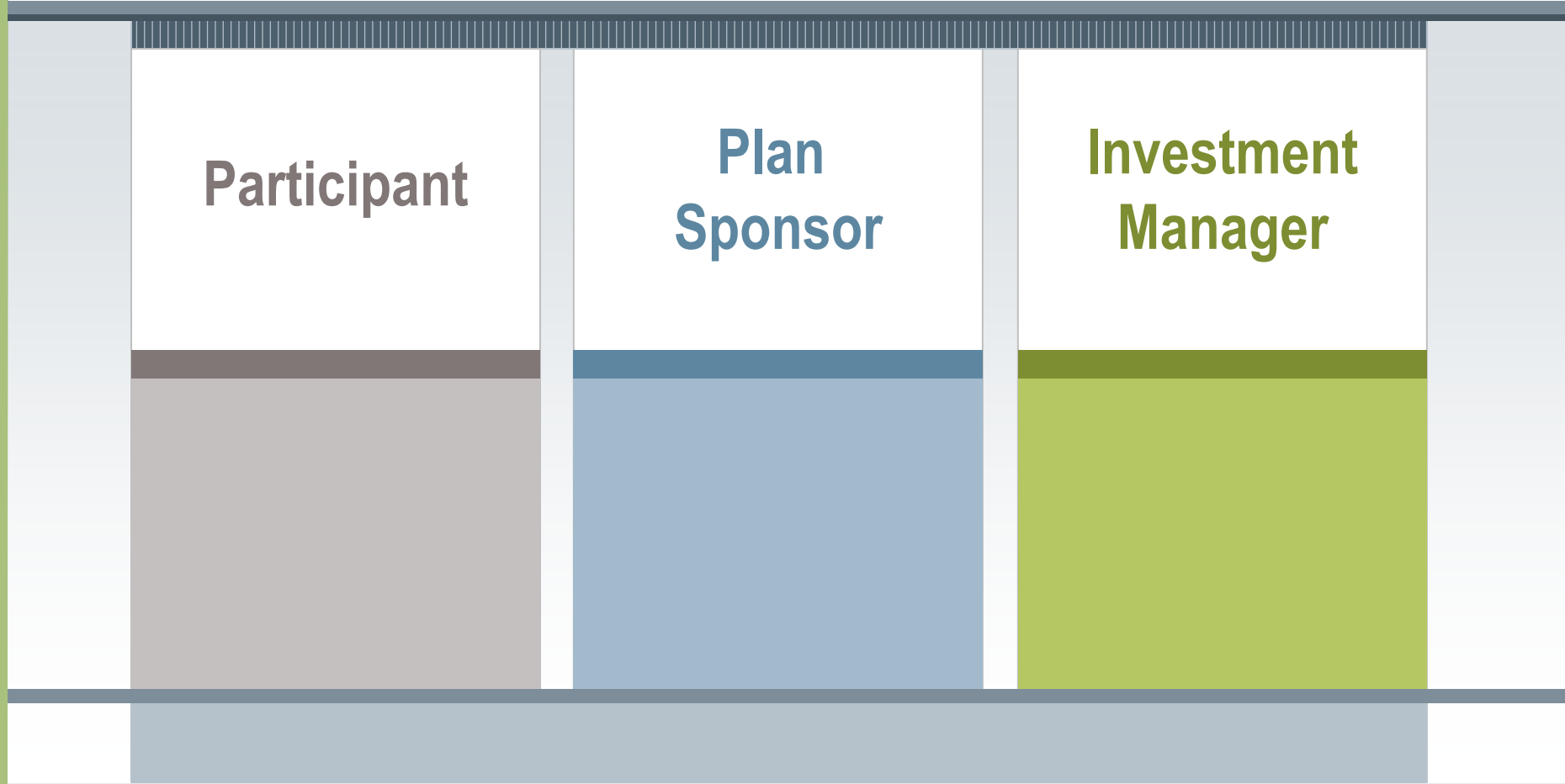


### Investor behavior is a key element in seeking to achieve successful outcomes

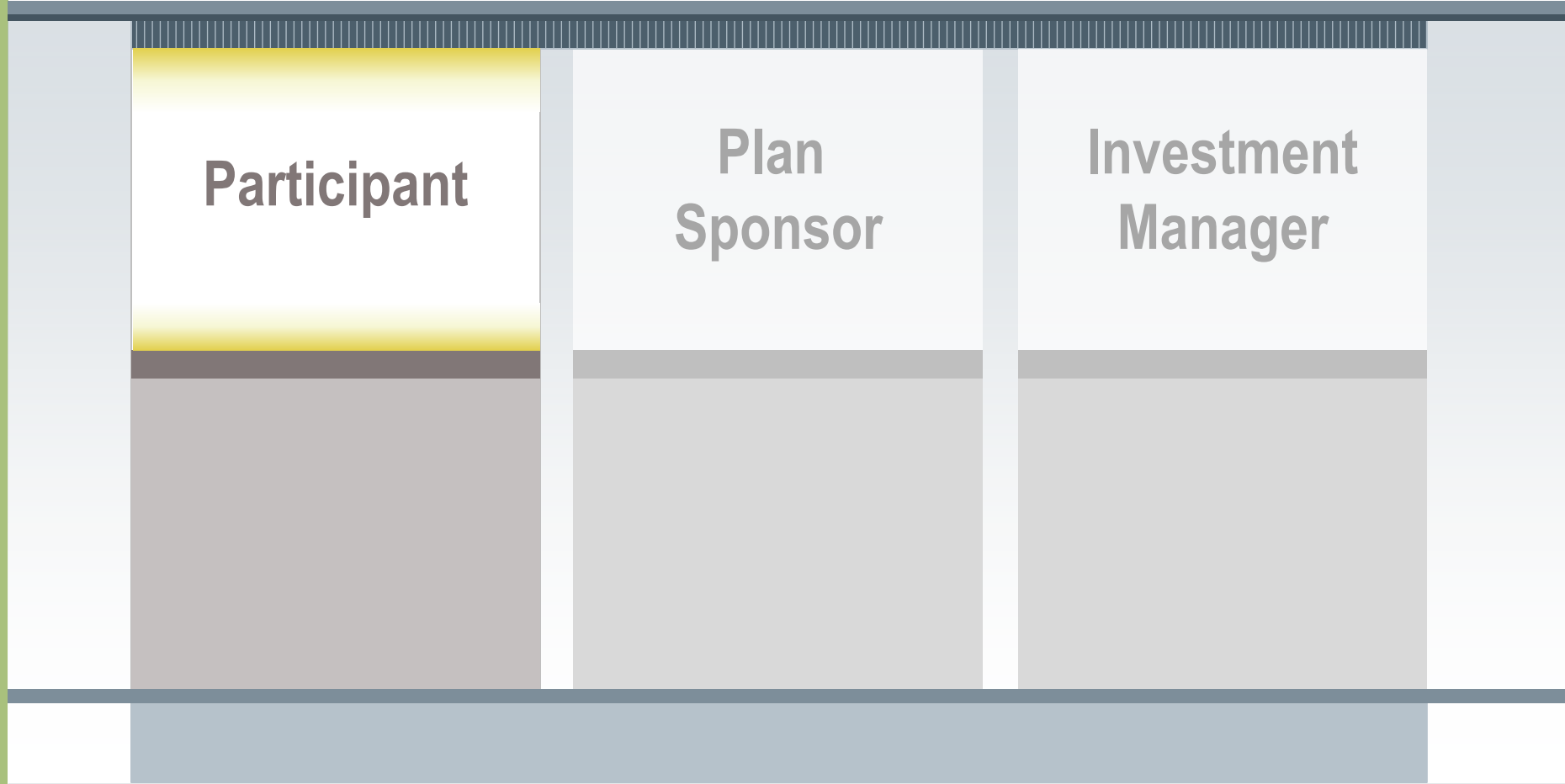
Chart is a hypothetical example based on a set of assumptions to illustrate the limits of income replacement that can be achieved through regular savings contributions alone (blue bars), and the need for an expected return on investment to achieve a desired level of income replacement over a longer retirement horizon (black bars). For the purposes of this chart, the following assumptions are presumed: investor starts contributing at age 25 through age 66, and receives annual salary increases equal to 1.5% over this period; Green bars represent an increasing percentage of investor contributions from 8% to 13% of salary from age 25 through age 66 (includes company matching funds). Blue bars represent the expected income replacement provided solely by the contribution amounts, equal to approximately 50% of one's final preretirement salary through the early years of retirement. Black bars represent the expected income replacement needed through a target date portfolio's investment returns equal to approximately 50% of one's final preretirement salary through age 93. A hypothetical internal rate of return (IRR) equal to approximately 4.5% in real terms is assumed (required investment return to have savings equal income replacement needs). This hypothetical illustration is not intended to predict or project the investment performance of any security. The IRR is a rate of return used in capital budgeting to measure and compare the profitability of investments. Past performance is no guarantee of future results. Your performance will vary and you may have a gain or loss when you sell your shares. For many investors these assets will be combined with other complementary sources income (e.g., Social Security, DB plan benefits, and personal savings). Source: Fidelity Investments.



# The Power of Partnership



# The Power of Partnership

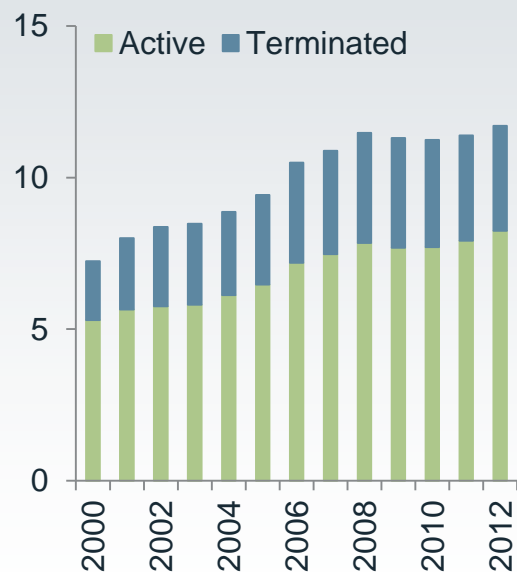


# Levers in Seeking to Achieve Retirement Goal

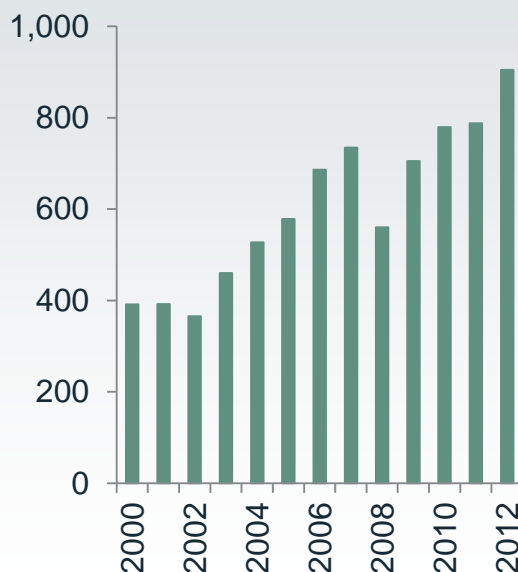
- **Contribution Rate**
- **Savings Start Date**
- **Retirement Age**

# Fidelity's Proprietary Data Allows Us to Analyze Participant Behavior

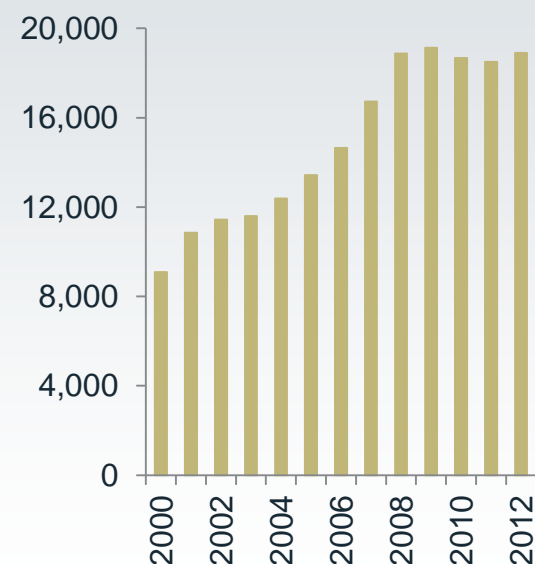
## Participants (M)



## Assets (\$B)



## Plans



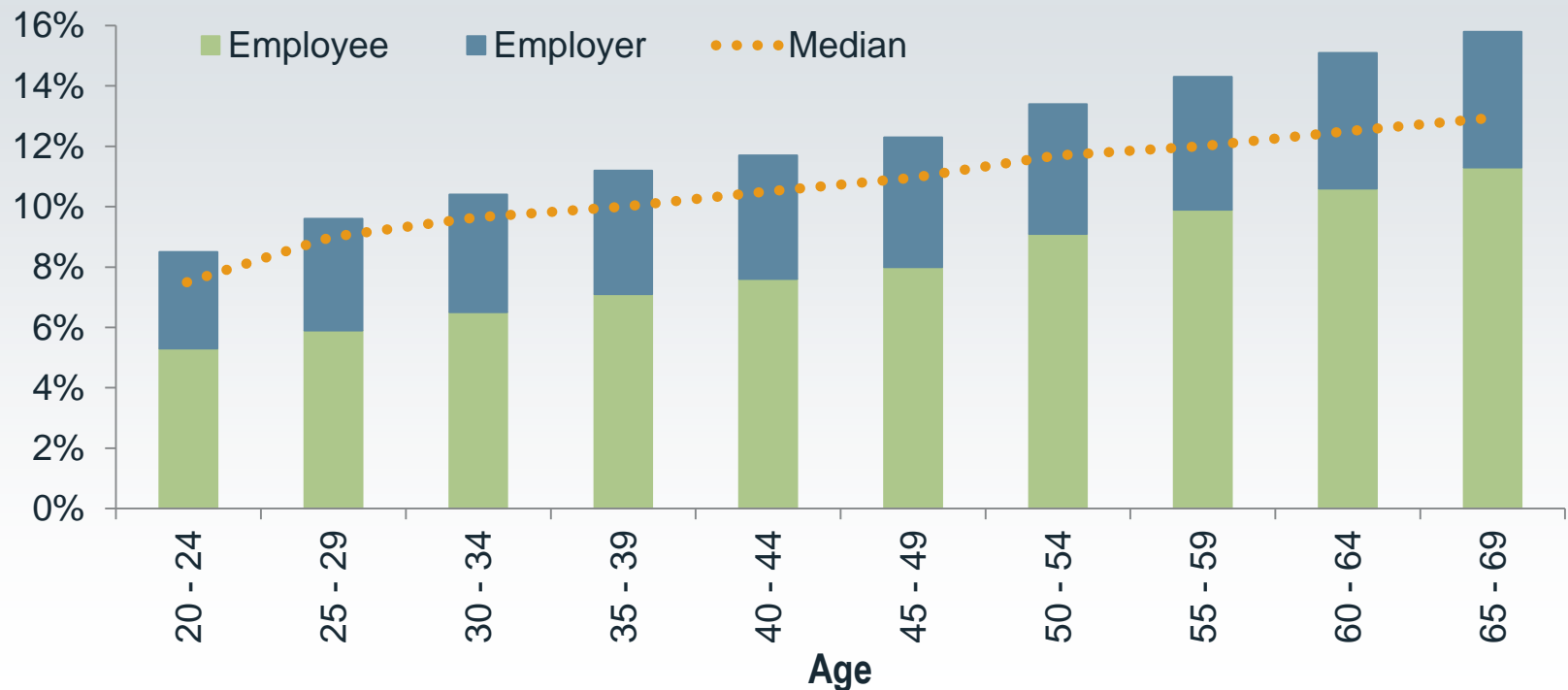
Note: Data in this presentation excludes tax-exempt plans, nonqualified plans, and the FMR Co. plan. This analysis includes data from the Fidelity Advisor 401(k) Program. As of 12/31/2012.



# Contribution Rates Increase With Age

## Average Savings Rate

### Savings as Percent of Salary



Source: Informed by millions of participants from Fidelity Recordkeeping Data as of 6/30/2013 who are making contributions over a 12-month period. Data excludes tax-exempt plans, nonqualified plans, and the FMR Co. plan. This analysis includes data from the Fidelity Advisor 401(k) Program.

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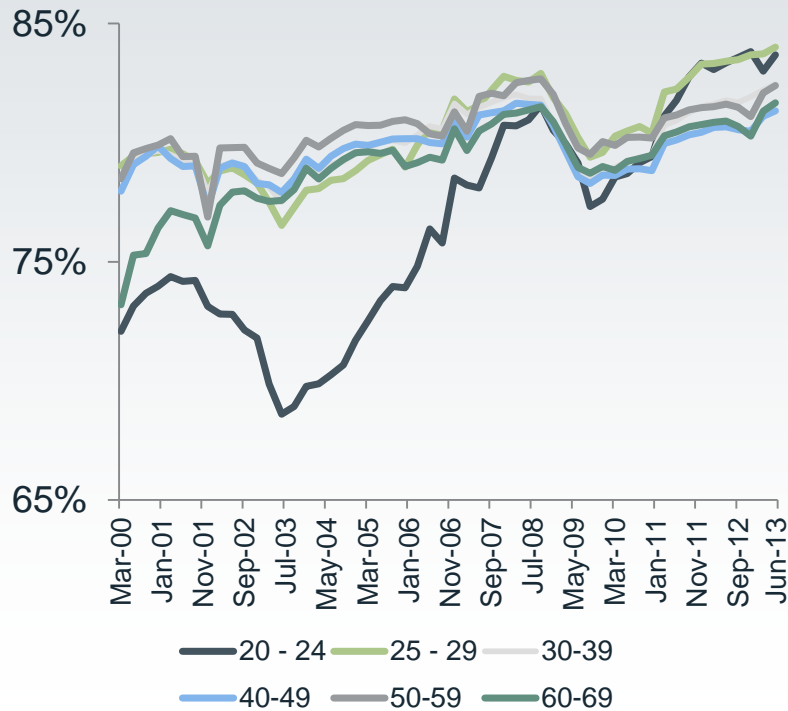


# Younger Workers are Slowly Saving Earlier

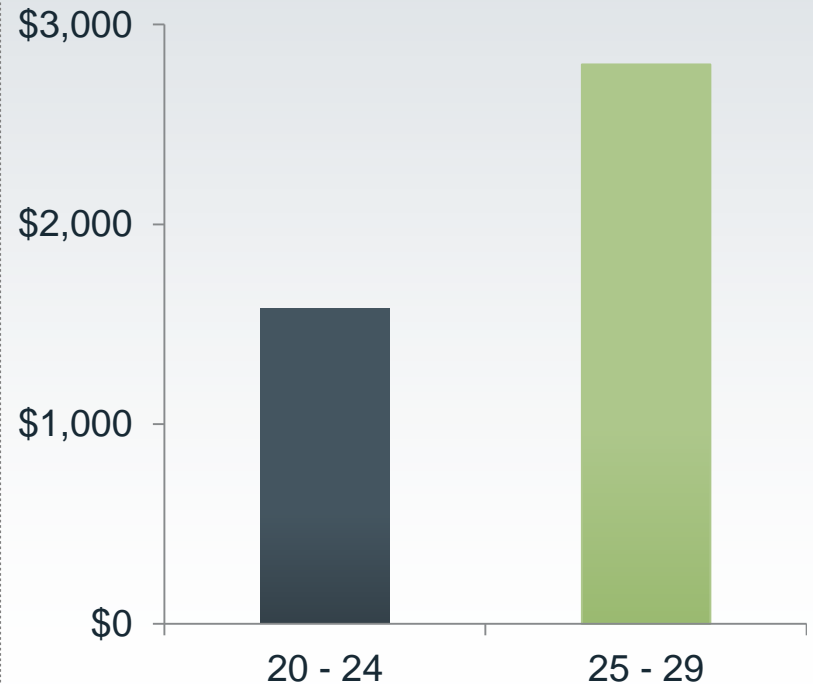
More likely to save...

..but the amounts are smaller

**Percent of Active Participants Making Contributions**



**Average Employee Contribution Over Last 12 Months**



Source: Fidelity Recordkeeping Data as of 6/30/2013

Note: Participation rate = percentage of eligible participants who make a salary deferral  
 Contribution rate = percentage of participants with an account who make a salary deferral

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# Some Factors are Beyond the Worker's Control

## ■ Salary Growth

- Higher wage growth makes it **more difficult to replace 85%** of a participant's salary
- Aggregate real wages **have increased 1-2% per year**

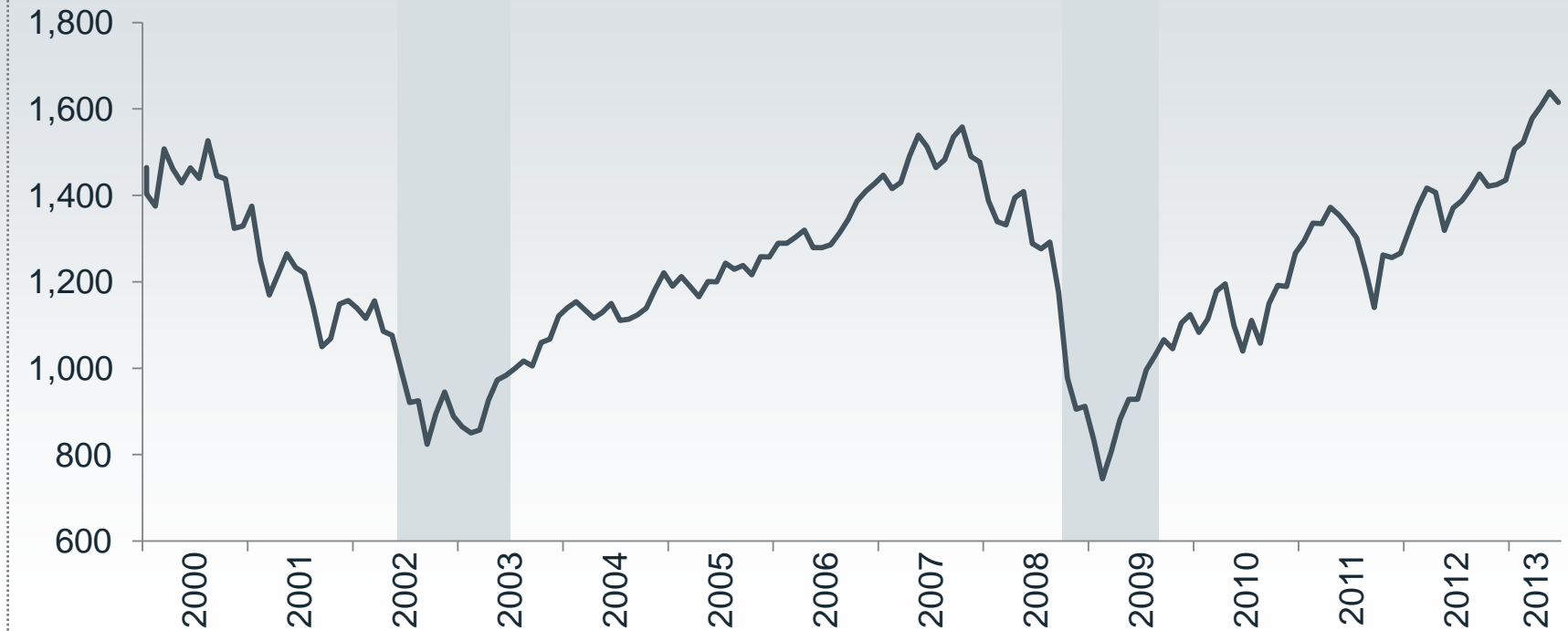
## ■ Longevity

- Life expectancy continues to increase – **every decade it has increased** by approximately one year
- Almost half of current 67-year olds **are likely to live into their 90s**

Source: Longevity data from Society of Actuaries 1983 Individual Annuity Mortality (IAM) table, 1983 IAM projected to 1990 with mortality improvement Scale G, Annuity 2000 Mortality table, 2012 IAM table.  
Salary growth data from U.S. Census, 2011 (total workers adjusted to 2011 dollars).

# Savings Behavior is Consistent Over Time

## Standard & Poor's 500 Index: Closing Price

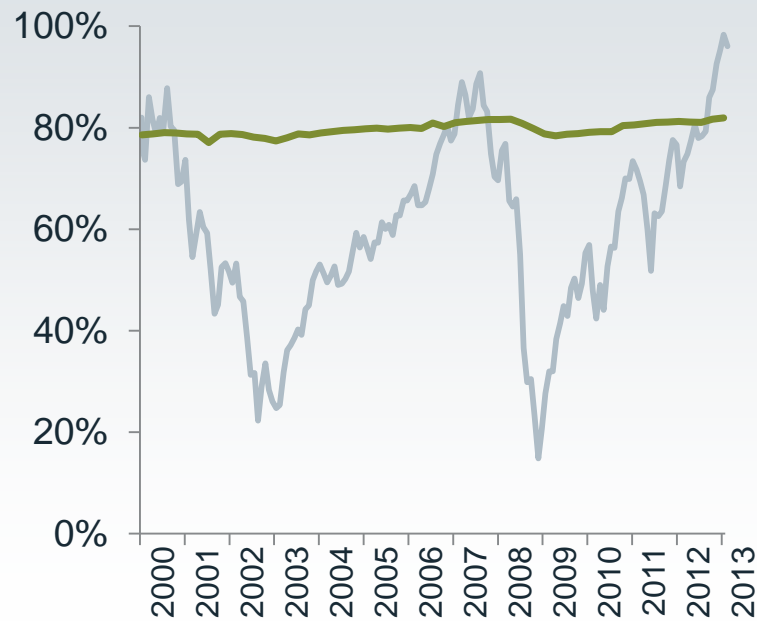


Past performance is no guarantee of future results. You cannot invest directly in an index. Standard & Poor's 500 Index (S&P 500) is a market capitalization-weighted index of 500 common stocks chosen for market size, liquidity, and industry group representation to represent U.S. equity performance.

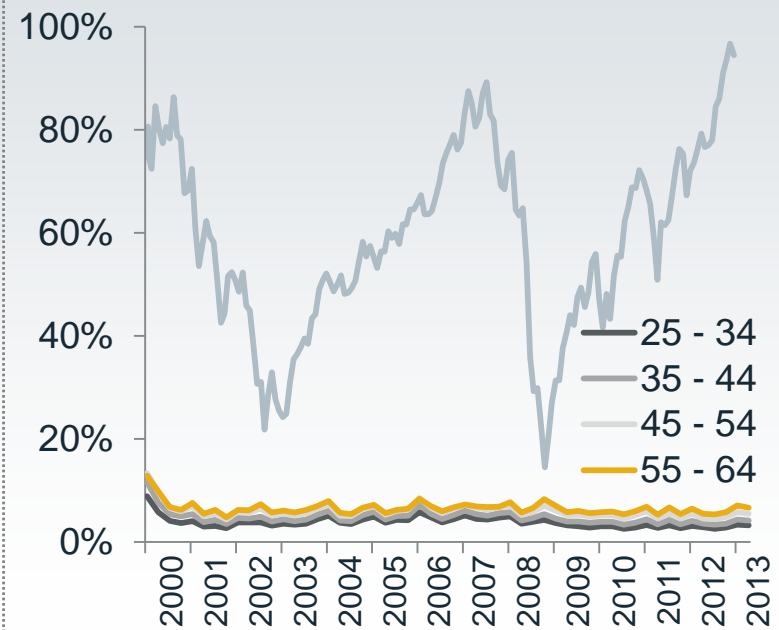
Source: Bloomberg as of 6/30/2013

# Savings Behavior is Consistent Over Time

## Percent of Active Participants Making Contributions



## Percent of Participants in the Accumulation Phase Making an Exchange



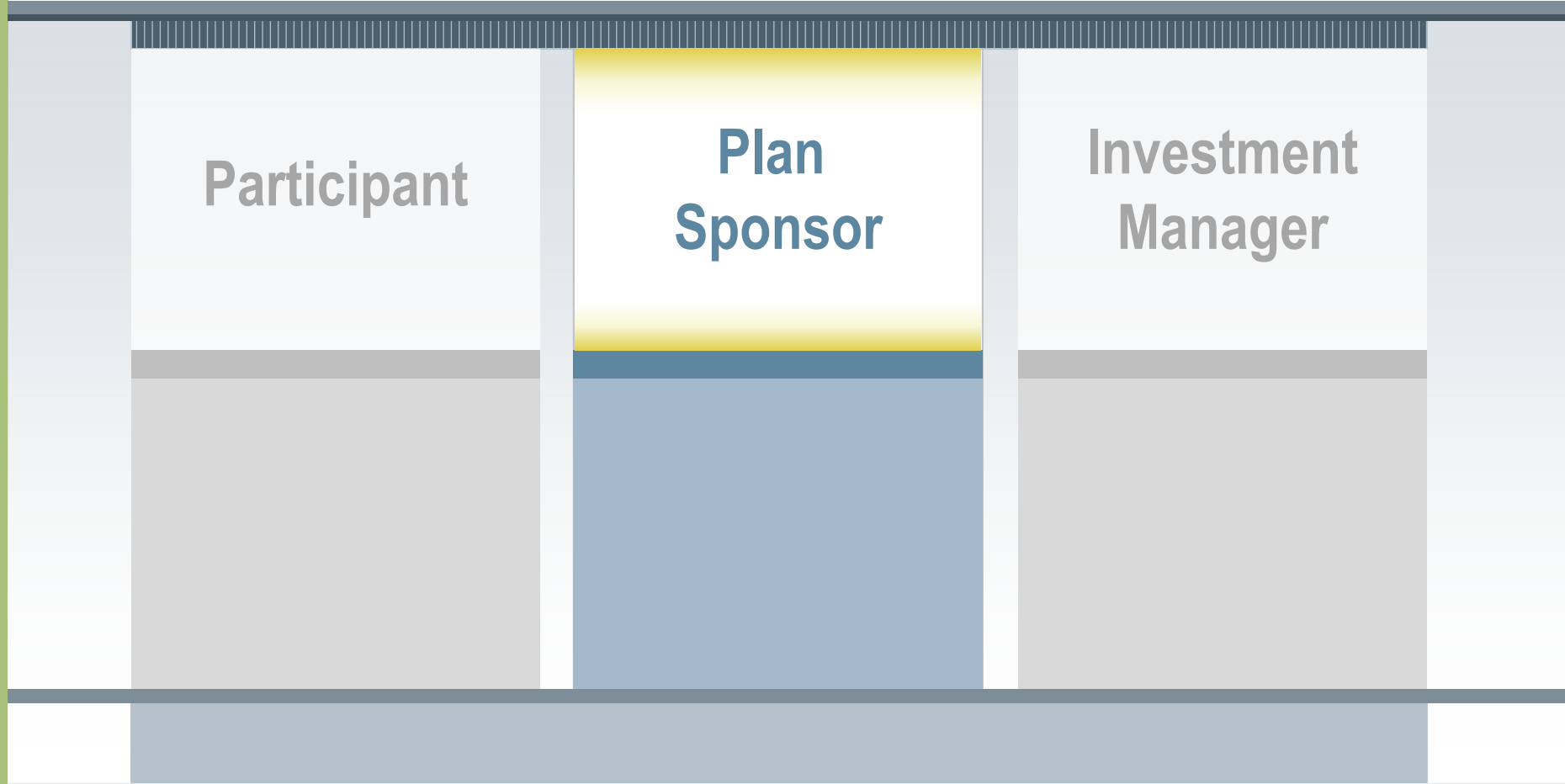
Source: Informed by millions of participants from Fidelity Recordkeeping Data as 6/30/2013.  
 Note: Contribution rate = percentage of participants with an account who make a salary deferral during a quarter.  
 Exchange rate=percentage of participants who make an exchange during a quarter.  
 Exchange is defined as selling or buying an asset in an account during a quarter.



# Participant Demographics—Summary

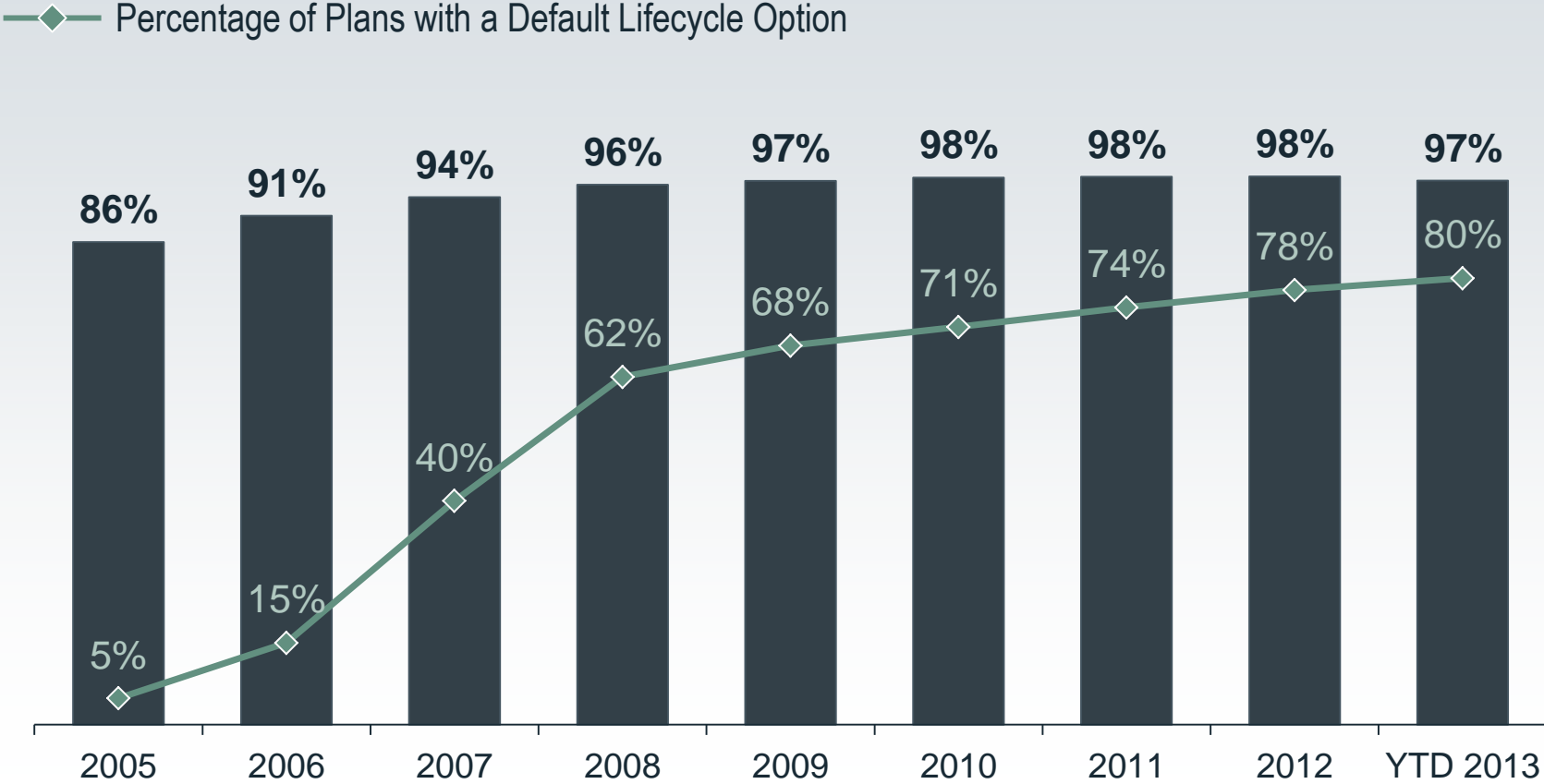
- **Some participants' behavior is improving—saving earlier and retiring later, but**
- **...current savings rates need to increase to improve retirement readiness—there is no substitute for savings**

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# Lifecycle Funds are the Primary Default

## Percentage of Plans with a Lifecycle Option



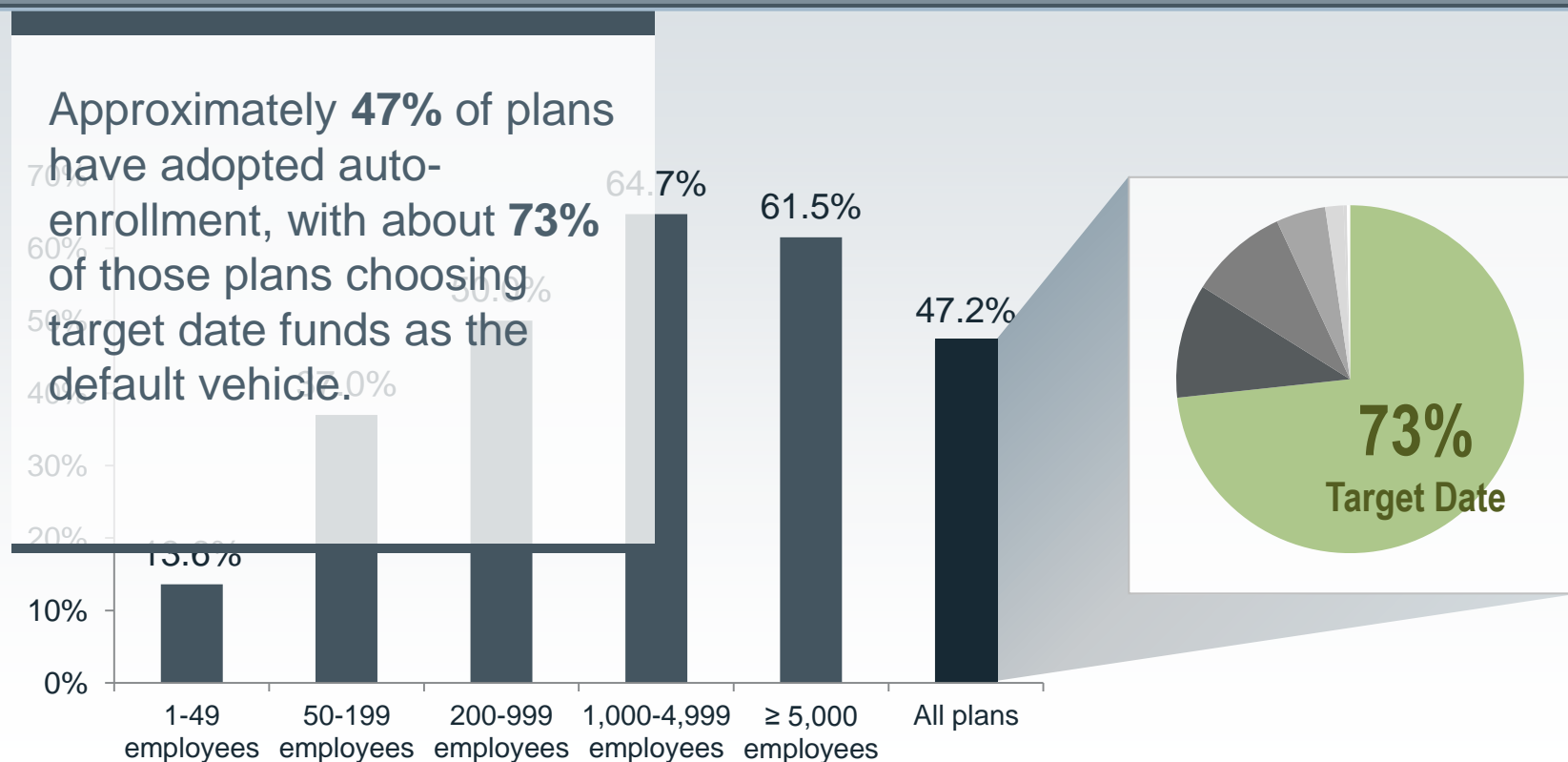
Note: Data in this presentation excludes tax-exempt plans, nonqualified plans, and the FMRCo. plan. This analysis includes data from the Fidelity Advisor 401(k) Program. As of 9/30/2013. Source: FMRCo.





# Auto-enrollment and Auto-deferrals

## Percentage of Plans with Auto-enrollment and QDIA Selections for Auto-deferrals by Segments, 2012



**KEY IMPLICATION:** The Pension Protection Act of 2006 provided safe harbor protection for plans to auto-enroll participants. Today, the pace of growth in auto-enrollment has slowed. Most plan sponsors have made decisions related to auto-enrollment. There may be opportunity for improvement among smaller plans where adoption has been lower than among larger plans. Improved and focused communication programs are needed to increase participation and contribution rates.

Source: PSCA

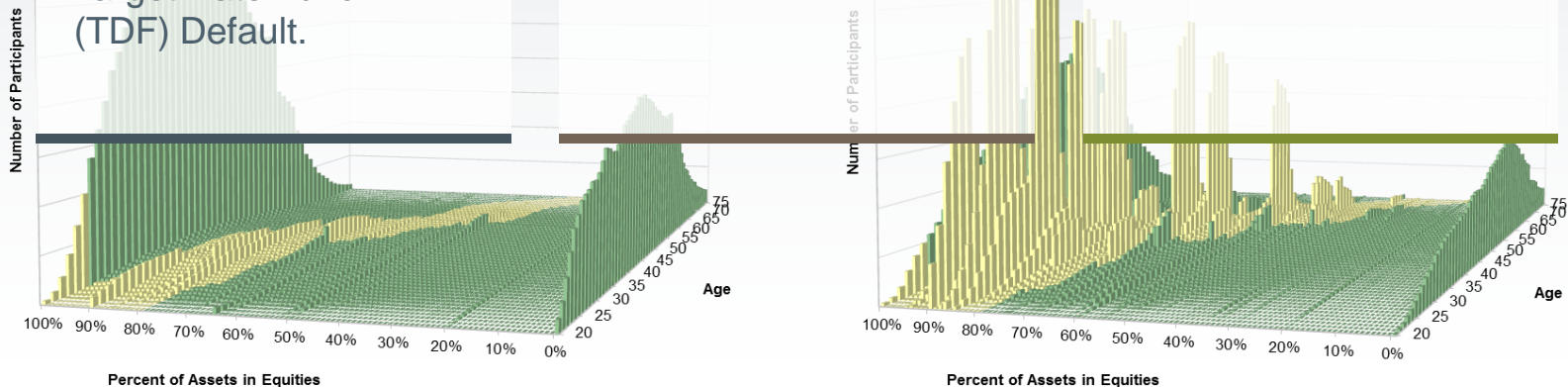
# Impact of Target Date Funds on Equity Allocations

## Target Date funds have increased diversification among participants

Over the last ten years, the percent of participants in the Band\*\* has increased from 19.9% to 48.3%, due to Target Date Funds and plan use of Target Date Fund (TDF) Default.

The percent of participants holding 100% of their assets in equity has decreased from 24.5% to 9.9%.

Previously, equity allocation was an “all-or-nothing” decision for many participants, with few participants creating blended portfolios.

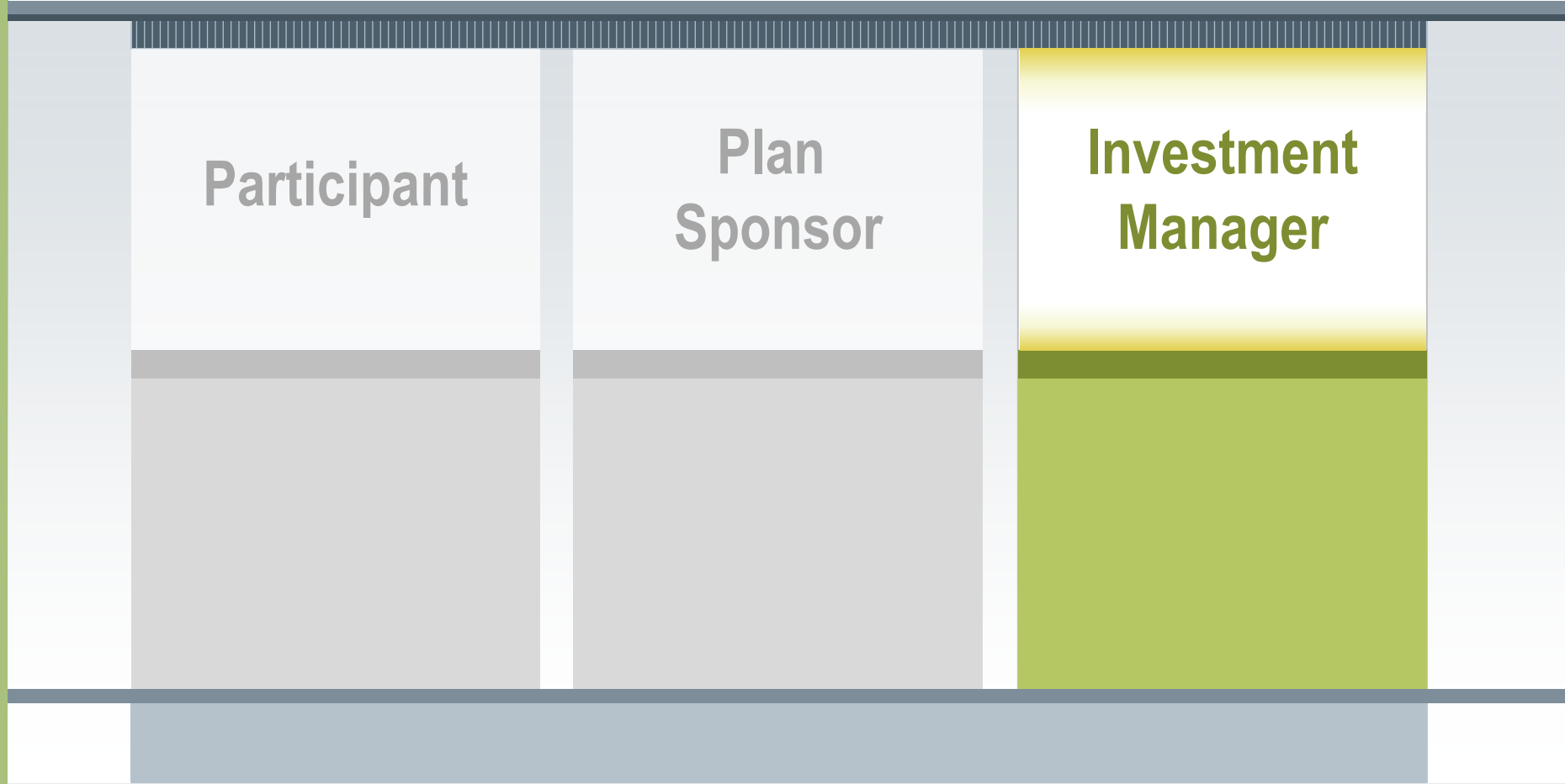


\*\*The “Band” refers to the area +/- 10% point around the Freedom Fund equity rolldown. The Fidelity Freedom Funds® are target date funds designed to become more conservative and to hold a smaller percentage of equities as investors approach their retirement dates. The rolldown assumes that participants will retire in the year they turn age 65. Investors should allocate assets based on individual risk tolerance, investment time horizon, and personal financial situation. A particular asset allocation may be achieved by using different allocations in different accounts or by using the same one across multiple accounts.

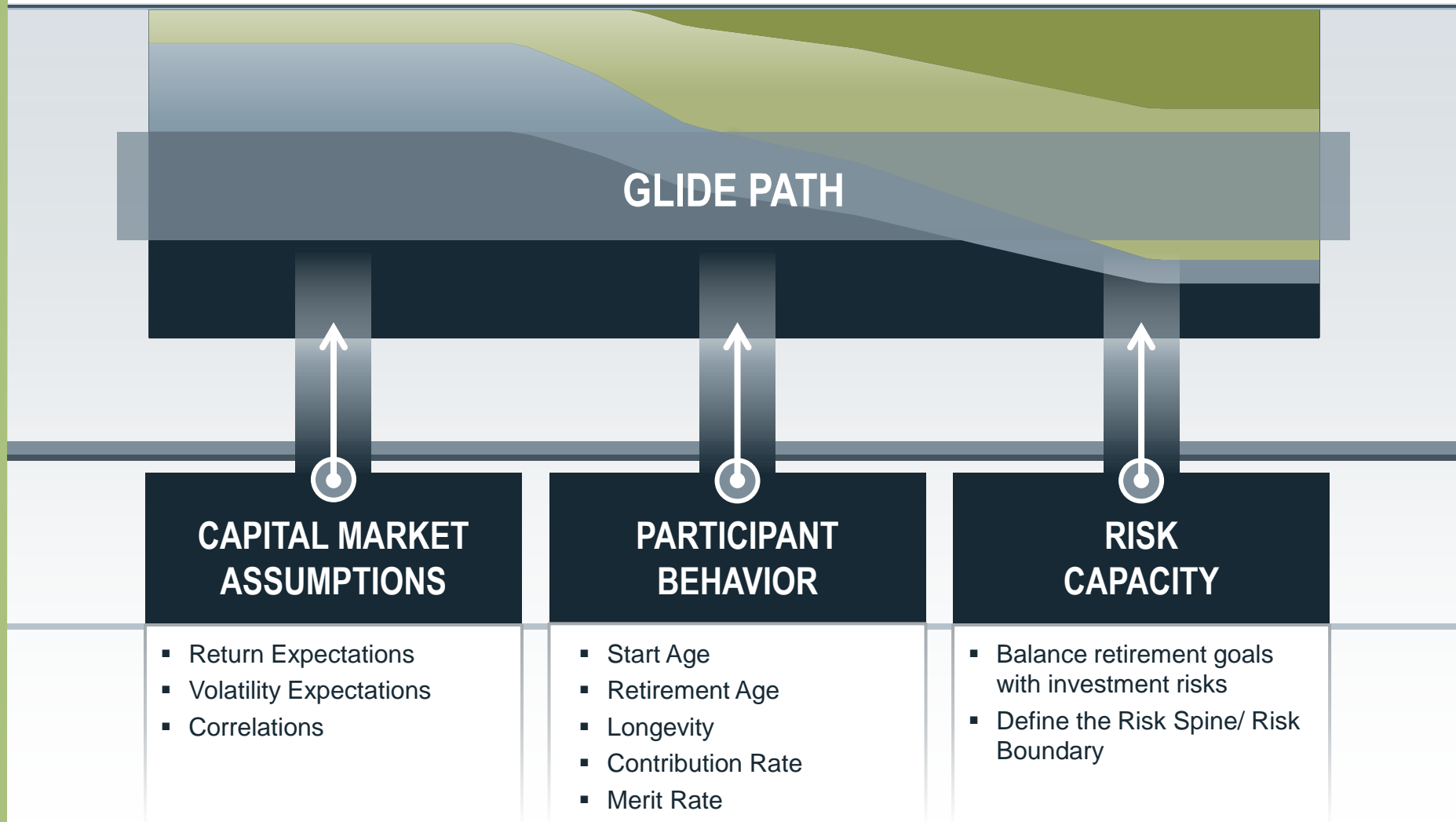
# Plan Sponsor—Summary

- **25% of plans offer Auto Enrollment (AE) – adoption among larger plans is higher at 65%**
- **AE drives higher participation rates, BUT 65% of those plans utilize a default deferral rate of 3% or less**
- **Fidelity recommends:**
  - Utilization of AE
  - Initial deferral of 6% of income
  - Total employee/employer contributions reach 15% as early as possible

# The Power of Partnership



# Key Glide Path Drivers



# Fidelity's Glide Path: Through Retirement

## Equity Allocation



Investors should allocate assets based on individual risk tolerance, investment time horizon, and personal financial situation. A particular asset allocation may be achieved by using different allocations in different accounts or by using the same one across multiple accounts. The glide path is not intended as a benchmark for individual investors; rather, it is a range of equity allocations that may be appropriate for many investors saving for retirement based on an assumed retirement age of 65, as well as a range of expected retirement ages at or near 65. Source: FMRCo. The enhanced glide path was implemented on 1/1/2014.

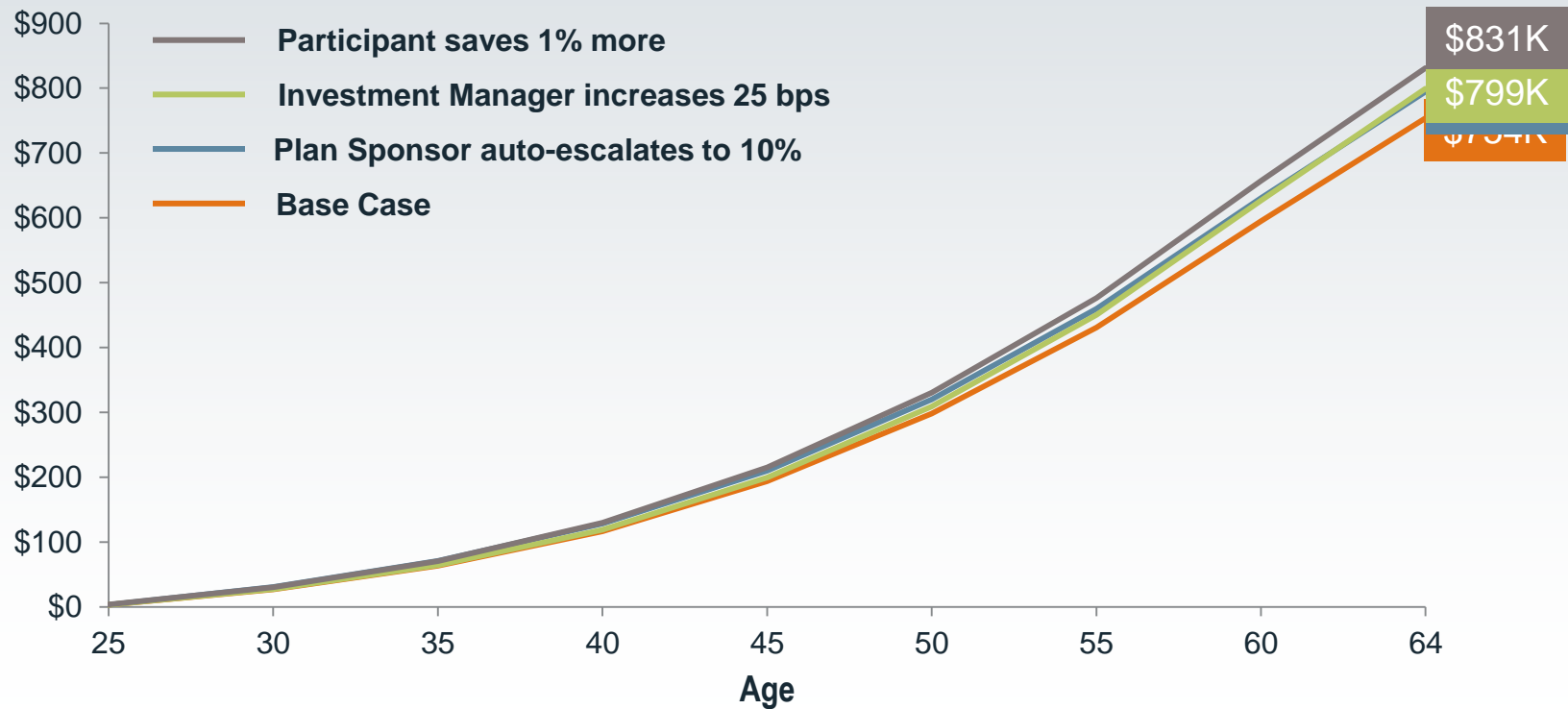


# In Conclusion

# Key Levers to Helping Achieve Retirement Goals

## Real Wealth Evolution

### Real Median Wealth (\$K)



Source: Fidelity Investments Research Team. For illustrative purposes only. Base case assumptions: Merit Increase: 1.5% annually; Contributions: 8% at age 25 to 13% up to age 65; Assumes \$75K final salary; Age-specific internal rates of return based on long term capital market returns and an increasingly conservative asset mix.

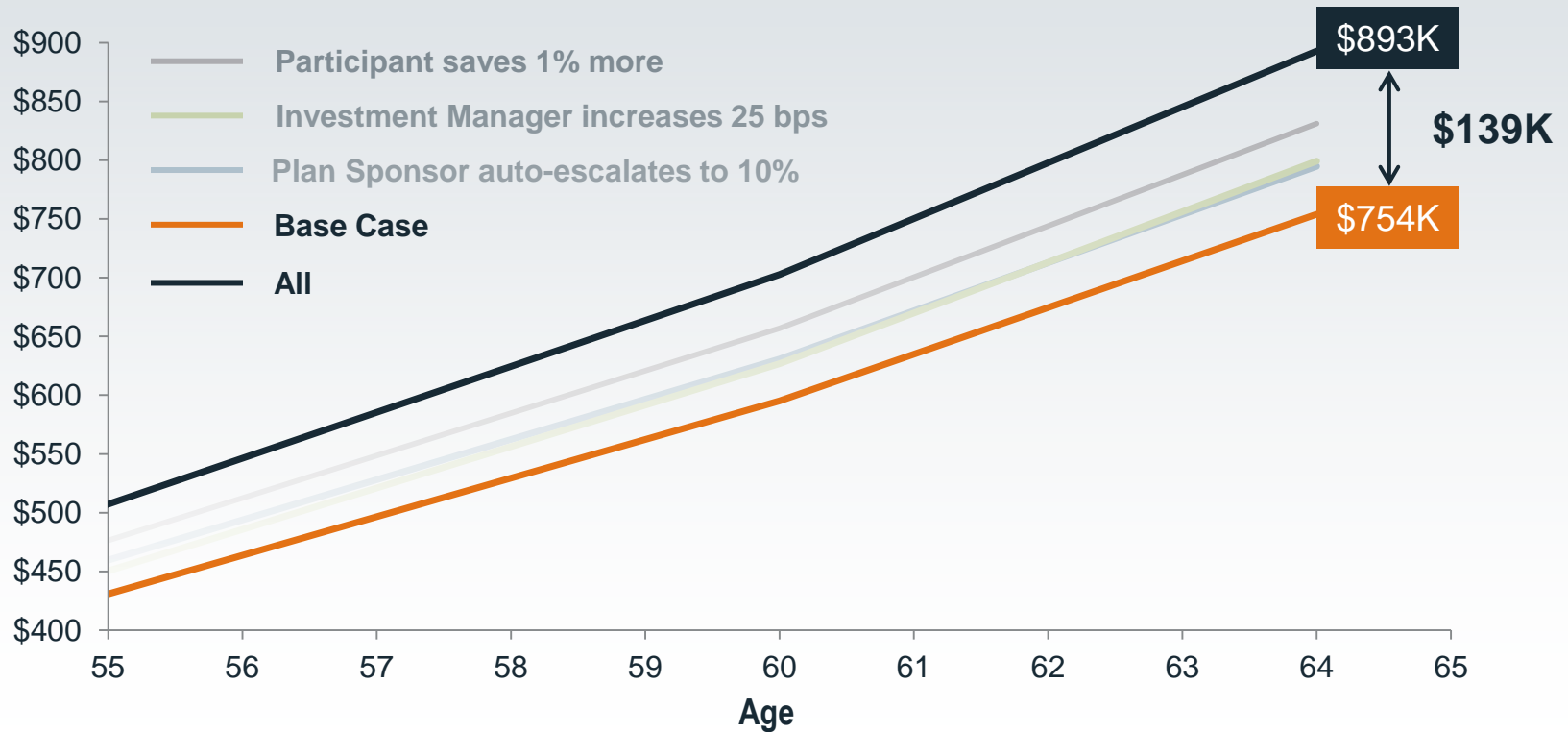




# Key Levers to Helping Achieve Retirement Goals

## Real Wealth Evolution

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Source: Fidelity Investments Research Team. For illustrative purposes only. Base case assumptions: Merit Increase: 1.5% annually; Contributions: 8% at age 25 to 13% up to age 65; Assumes \$75K final salary; Age-specific internal rates of return based on long term capital market returns and an increasingly conservative asset mix.



# Actions Plan Sponsors Can Take to Help Improve Participant Outcomes

## ■ Influence Participant Behavior

- Consider adopting automated plan solutions – AE, AIP

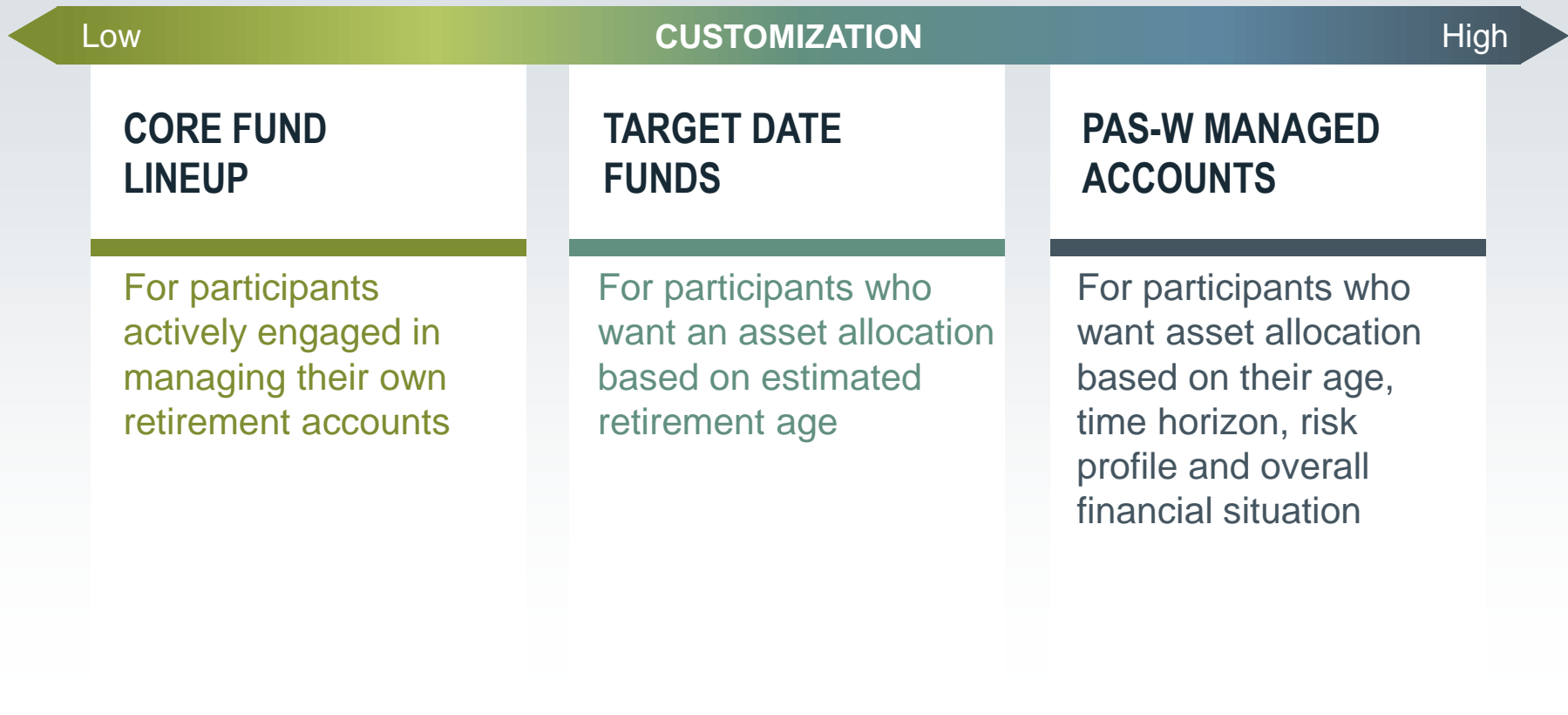
## ■ Re-evaluate Benefits Design

- Document plan participant key demographic characteristics and behaviors
- Establish an income replacement goal—50% income replacement rate for most plans

## ■ Consider the role that your plan's target date, custom target date and/or managed accounts offering play toward achieving that goal

# Solutions Across the Plan Line Up

Your participants' needs require a range of investment solutions



# Important Information

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**Read this important information carefully before making any investment. Speak with your relationship manager if you have any questions.**

Past performance is no guarantee of future results.

Diversification/Asset Allocation does not ensure a profit or guarantee against loss.

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