Attract, Retain, and Retire the Workforce of Tomorrow

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Making Retirement Plans Work
Part of the American Retirement Association

Meghan Murphy, Andy Reed, and Katie Taylor
Fidelity Investments

Today, retirement planning focuses on saving. Tomorrow, the focus will be on financial wellness, emotional readiness, and freedom.

– Stanford Center on Longevity, 2015

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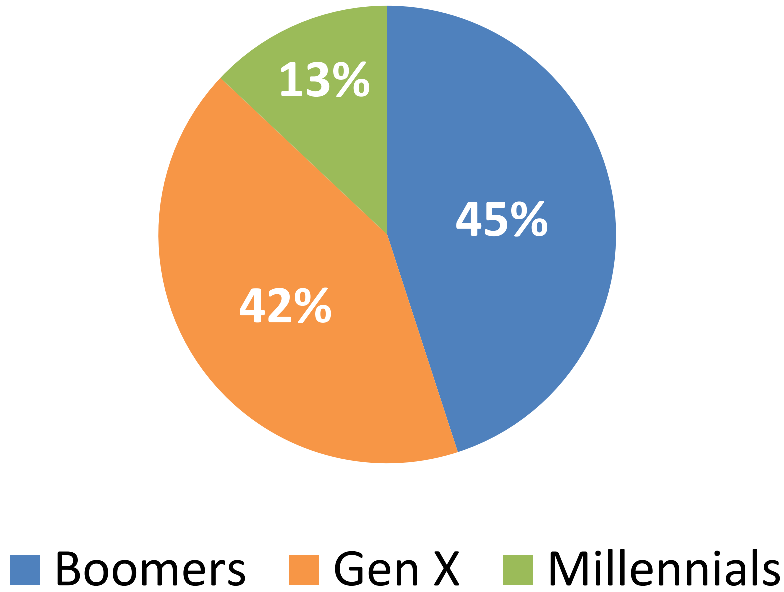
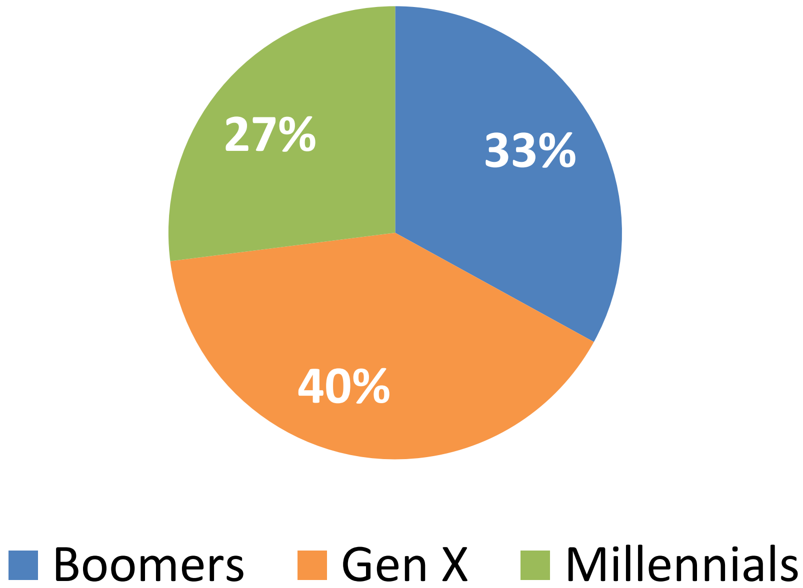
Changing Demographic Landscape

Five years ago



Today



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Fidelity Investments analysis of 22,200 DC recordkept plans and 14.2 million participants, including Advisor sold plans, as of June 30, 2016.

Today

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Plan Design Needs to Evolve

1 **What is your workforce strategy?**

2 **What is your benefits strategy?**

3 **Do they align to maximize employee value at a reasonable cost?**

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Vision 2020: Four Strategies to Help Drive Better Outcomes

DESIGN FOR INCOME

BUILD FINANCIAL WELLNESS

ACCOUNT FOR HEALTH CARE

TRANSITION WITH CONFIDENCE

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Designing for Income

Today, more DC plan designs are being tailored toward a specific outcome.

What is yours designed to deliver?

The number of sponsors designing for income ***has tripled*** in the past two years.[1]

Six in ten workers[1] will rely solely on a DC plan for their retirement savings, yet ***55% are not on track.***[2]

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[1] Fidelity Investments online survey of 500+ employers; March 2013 vs. April 2015.
[2] Fidelity Investments Retirement Savings Assessment, 2015.

Getting to a Desired Outcome

PLAN SPONSOR
At least:

45%
INCOME REPLACEMENT

67
FINANCIAL READINESS AGE

PARTICIPANT
At least:

10X
10X ENDING SALARY

To reach the 10x ending salary goal by age 67, we believe participants need to save at least **15%*** of their income over the course of their careers

*includes employee and employer contributions
Please see the Glossary page for important definitions related to the terms used on this page.

Glossary of Terms

INCOME REPLACEMENT RATE

The income replacement rate is the percentage of pre-retirement income than an individual should target replacing in retirement. The income replacement targets are based on Consumer Expenditure Survey 2011 (BLS), Statistics of Income 2011 Tax Stat, IRS 2014 tax brackets and Social Security Benefit Calculators. The 45% income replacement target assumes no pension income and a retirement and social security claiming age of 67 which is the full social security benefit age for those born in 1960 or later. For an earlier retirement and claiming age, this target goes up due to lower social security retirement benefits. Similarly, the target goes down for a later retirement age. For a retirement age of 65, this target is defined as 50% of pre-retirement annual income and for a retirement age of 70, this target is defined as 40% of pre-retirement income.

FINANCIAL READINESS AGE

The readiness age targets are defined as the anticipated age at which an individual could reach a certain income replacement target from various retirement income sources excluding social security. These income replacement targets are as follows: 55% if the readiness age is less than or equal to 63, 50% if it is from 64 to 66, 45% if it is 67 or 68 and 40% if it 69% or higher. The readiness age targets are developed assuming age-based asset allocations consistent with the equity glide path of a typical target date retirement fund, a 15% savings rate, a 1.5% constant real wage growth, a planning age through 93. Fidelity developed the readiness age targets through multiple market simulations based on historical market data, assuming poor market conditions to support a 90% confidence level of success.

SAVINGS FACTOR

The savings factor is a multiple of salary that an individual should aim to have saved by a given age. For example, you should aim to have saved 1X your current salary by age 30. Fidelity developed a series of salary multiplier targets corresponding to different ages assuming a retirement age of 67, a 15% savings rate, a 1.5% constant real wage growth, and a planning age through 93 and an income replacement target of 45% of pre-retirement income (assumes no pension income). The replacement income target is defined as 45% of pre-retirement income and assumes no pension income. Fidelity developed the salary multipliers through multiple market simulations based on historical market data, assuming an asset mix of greater than or equal to 50% equity, and poor market conditions to support a 90% confidence level of success. The final salary multiplier is calculated to be 10X of pre-retirement income and assumes a retirement age of 67. For an earlier retirement age, this target goes up due to lower social security retirement benefits and a longer retirement horizon. Similarly, the target goes down for a later retirement age. For a retirement age of 65, this target is defined as 12X and for a retirement age of 70, this target is defined as 8X.

Savings Factor and Financial Readiness Age are based on simulations based on historical market data, assuming poor market conditions to support a 90% confidence level of success. These simulations take into account the volatility that a typical target date asset allocation might experience under different market conditions. Poor market conditions means that 90% of the time the asset allocation performed at least as well, while 10% of the time a similar asset allocation failed to perform as well. The analysis assumes a level of diversity within each asset class consistent with a market index benchmark that may differ from the diversity of your own portfolio. Please note that the projections do not reflect the impact of any transaction costs or management and servicing fees. Volatility of the stocks, bonds and short-term asset classes is based on the historical annual data from 1926 through the most recent year-end data available from Ibbotson Associates, Inc. Stocks (domestic and foreign) are represented by Ibbotson Associates SBBI S&P 500® Total Return Index, bonds are represented by Ibbotson Associates SBBI U.S. Intermediate Term Government Bonds Total Return Index, and short term are represented by Ibbotson Associates SBBI 30-day U.S. Treasury Bills Total Return Index, respectively. It is not possible to invest directly in an index. All indices include reinvestment of dividends and interest income. All calculations are purely hypothetical and a suggested salary multiplier is not a guarantee of future results; it does not reflect the return of any particular investment or take into consideration the composition of a participant's particular account. The salary multiplier is intended only to be one source of information that may help you assess your retirement income needs. Remember, past performance is no guarantee of future results. Performance returns for actual investments will generally be reduced by fees or expenses not reflected in these hypothetical calculations. Returns also will generally be reduced by taxes.*

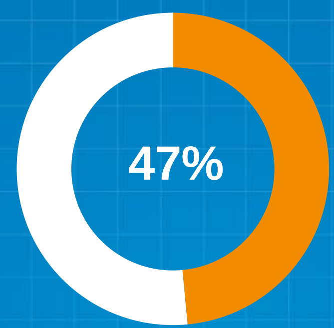
Helping Participants Succeed Requires Focus in Three Areas

PARTICIPATION & SAVINGS

30%
do not participate[1]

70%
save less than 15% of pay, including employer contributions[1]

ASSET ALLOCATION



may not have their workplace account appropriately allocated for their age[2]

LEAKAGE

22%
cash out within 5 years of changing jobs[3]

1 in 4
have an outstanding loan[1]

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[1] Unless otherwise noted, data based on Fidelity analysis of 21,200 corporate DC plans (including advisor-sold DC) and 13.5 million participants as of 6/30/2015.

Using Auto Solutions as Stepping Stones to Better Outcomes

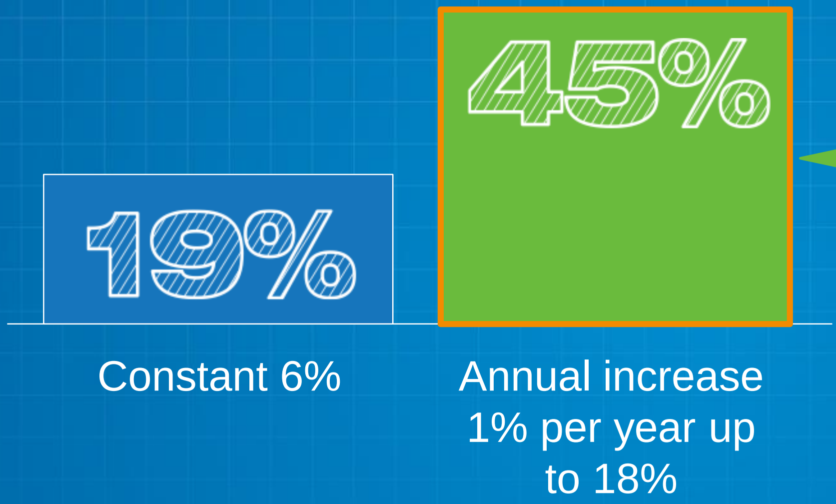
Targeted Income Replacement	40%	45%	50%
Financial Readiness Age	70	67	65
Auto enroll default + match	4%	6%	10%
Auto annual increase	1%	1%	1%
Total savings rate	12%	18%	22%

The target total savings rate may be higher than 15% to make up for lower savings rates earlier in employees' careers.

The auto solutions plan designs shown are based on the respective income replacement targets, but do not assume a constant savings rate throughout the working horizon. Target total savings rate includes both employer and employee contributions. For example, a hypothetical participant who starts with a 6% total annual savings at age 25 would need to increase her savings rate every year by 1% until she reaches the 18% target, including employer contributions, in order to replace 45% of pre-retirement annual income at age 67. Similarly a 4% starting rate at age 25 with 1% annual increase and 12% target would replace 40% at age 70, and a 10% starting rate at age 25 with 1% annual increase and 22% final target would replace 50% of pre-retirement annual income at age 65. Plan and IRS contribution limits have not been taken into consideration. Applies to eligible employees only.

Annual Increase Can Help Bridge the Gap

Income Replacement at Age 67 with and without Annual Increase
Starting at 6% savings



Annual increase could increase monthly retirement income by **$2K**

These illustrations are based on a participant starting salary of $50k at age 25, and salary increases of 1.5% annually until age 67, with ending salary at $92,060 and a planning age through 93. One scenario assumes a constant 6% total annual savings rate, while the other assumes a starting savings rate of 6% and a 1% annual deferral increase up to 18% including employer contributions. The income replacement estimates are based on multiple market simulations based on historical market data, assuming poor market conditions to support a 90% confidence level of success. These simulations take into account the volatility that a variety of asset allocations might experience under different market conditions. The income replacement estimates were found to be fairly consistent for a 90% confidence level of success where the average equity allocation over the investment horizon was more than 50% for the hypothetical portfolio. Volatility of the stocks, bonds and short-term asset classes is based on the historical annual data from 1926 through the most recent year-end data available from Ibbotson Associates, Inc. Stocks (domestic and foreign) are represented by Ibbotson Associates SBBI S&P 500®* Total Return Index, bonds are represented by Ibbotson Associates SBBI U.S. Intermediate Term Government Bonds Total Return Index, and short term are represented by Ibbotson Associates SBBI 30-day U.S. Treasury Bills Total Return Index, respectively. It is not possible to invest directly in an index. All indices include reinvestment of dividends and interest income. All calculations are purely hypothetical and a suggested income replacement estimate is not a guarantee of future results. Remember, past performance is no guarantee of future results. Performance returns for actual investments will generally be reduced by fees or expenses not reflected in these hypothetical calculations. Returns also will generally be reduced by taxes.

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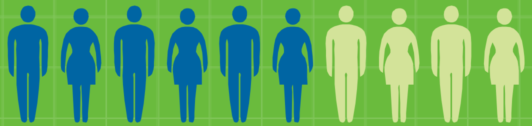
Supporting Your Range of Investors

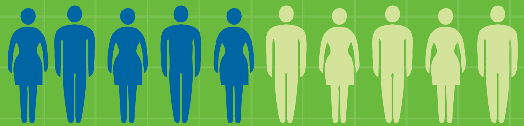
8 in 10

participants say they don't have the skill, will, and time to manage their own investments.[1]



6 in 10

are do-it-yourself investors, and yet…[2]



5 in 10

haven't made an exchange, mix change, or sought guidance in more than two years[2]

[1] Quick Questions/Investment Mix microsite was launched 8/6/13 to 1,851 targeted Fidelity Workplace Investing participant population; data as of 1/17/14. Participants were asked simple questions to determine their level of engagement or skill with regards to managing their workplace savings. Participant answers to these questions helped categorize them in two buckets: participants who manage their money on their own (22%) and participants who would like help managing their money (78%).

[2] Based on Fidelity analysis of 21,174 corporate DC plans (including advisor-sold DC) and 13 million participants as of 3/31/2014.

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Serving Up Choices for All Employees

Do-it-for-me options

The first options to consider when designing plan investments:

- Target date funds
- Managed accounts

Limited core lineup

A small but diverse lineup for participants who prefer to create their own asset allocation strategy

- Fixed income
- Domestic equity
- International equity
- Specialty/inflation

Expanded choice

Additional choices for participants who want to invest outside of the plan's core lineup

- Including self-directed brokerage account

Create Guardrails So Employees Don't Derail Long-Term Goals

40%

reduce deferrals or stop saving after taking out a loan*

PLAN DESIGN ELEMENTS TO CONSIDER:

LOANS

Only allow one loan

Only allow **Employee** money to be loaned

Mandatory wait period between loans

HARDSHIP WITHDRAWALS

Allow safe harbor hardship withdrawals

Automatic suspension reinstatement

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*Data is based on Fidelity analysis of 21,200 corporate DC plans (including advisor-sold DC) and 13 million participants as of 6/30/2014.

Next Best Steps to Take Now

Review and analyze your plan's data

Consider establishing a retirement readiness goal for your plan

Determine a strategy to get to the long-term vision for your plan

Tomorrow

What Drives the Decision to Retire?

- **Financial** and **non-financial** factors
- How **factors work together**
- How to **influence factors**

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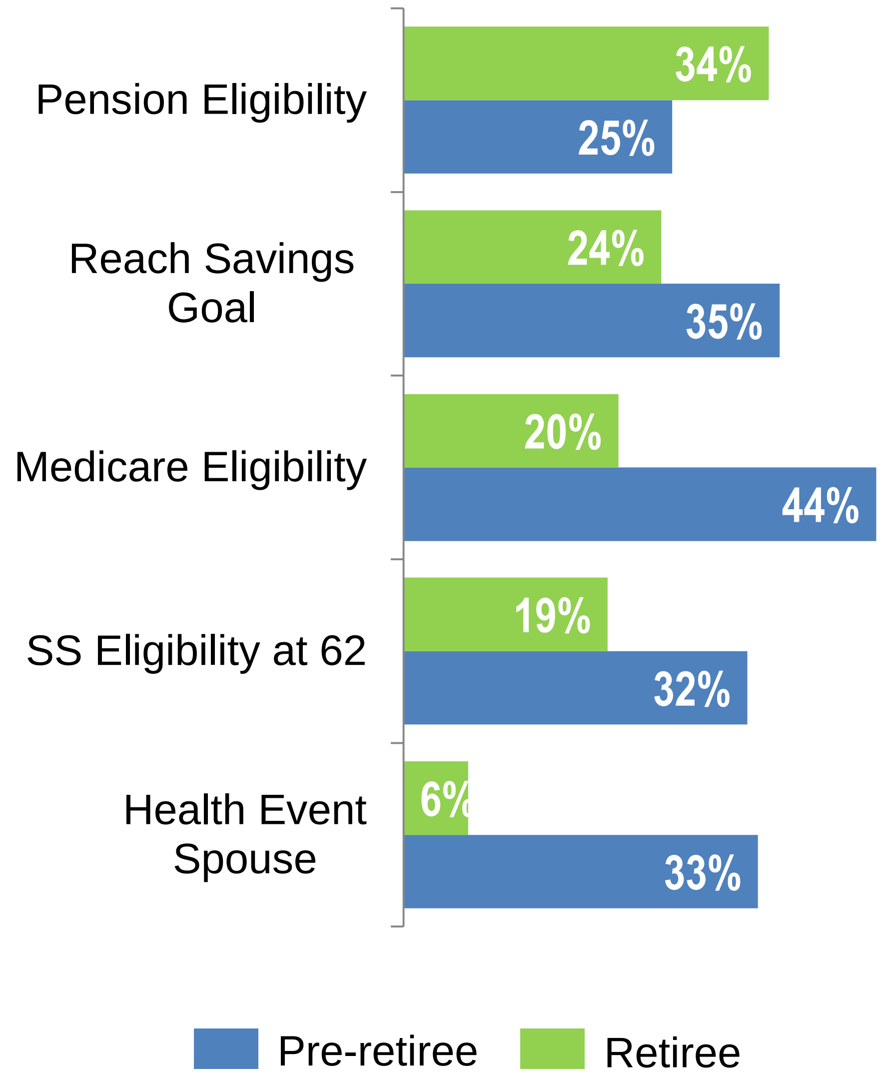
Factors **driving retirement date**: It's not what pre-retirees think



Unless otherwise noted, all data is based on Fidelity Investments 2015 Decision to Retire Research. This research represents insight from a series of in-depth interviews conducted in Boston, Chicago, and San Francisco (April 2015), and an online survey of more than 12,000 defined contribution plan participants recordkept by Fidelity (August 2015), ranging in age from 55 to 80 across all industries and income levels, who felt they had some control over their decision to retire. The survey was conducted by Greenwald & Associates, Inc., an independent third-party research firm. Research provided by Strategic Advisers Inc., a registered investment adviser and Fidelity Investments company. Fidelity also worked in collaboration with the Stanford Center on Longevity on the study.

MYTH

Most view retirement as a time to pursue their **passions.**

REALITY

Most view retirement as a time of **freedom.**

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MYTH

Most don't retire until they feel they **have enough money.**

REALITY

Half say it's **not about the money.**

MYTH

Spouses **want to spend time** together in retirement.

REALITY

60% of men want to spend time with their wives

43% of women want to spend time with their husbands

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MYTH

Turning 50 prompts many to start thinking about retirement.

REALITY

Turning 50 had **little to no impact.**

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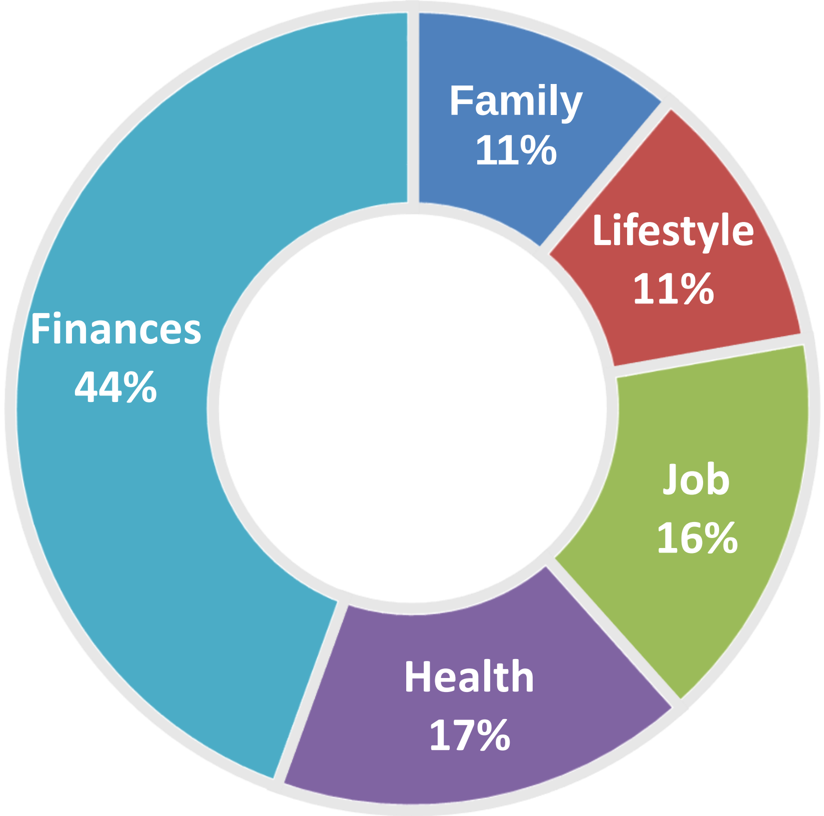
44% ranked financial as their #1 consideration for when to retire…

the other **56% ranked other factors**



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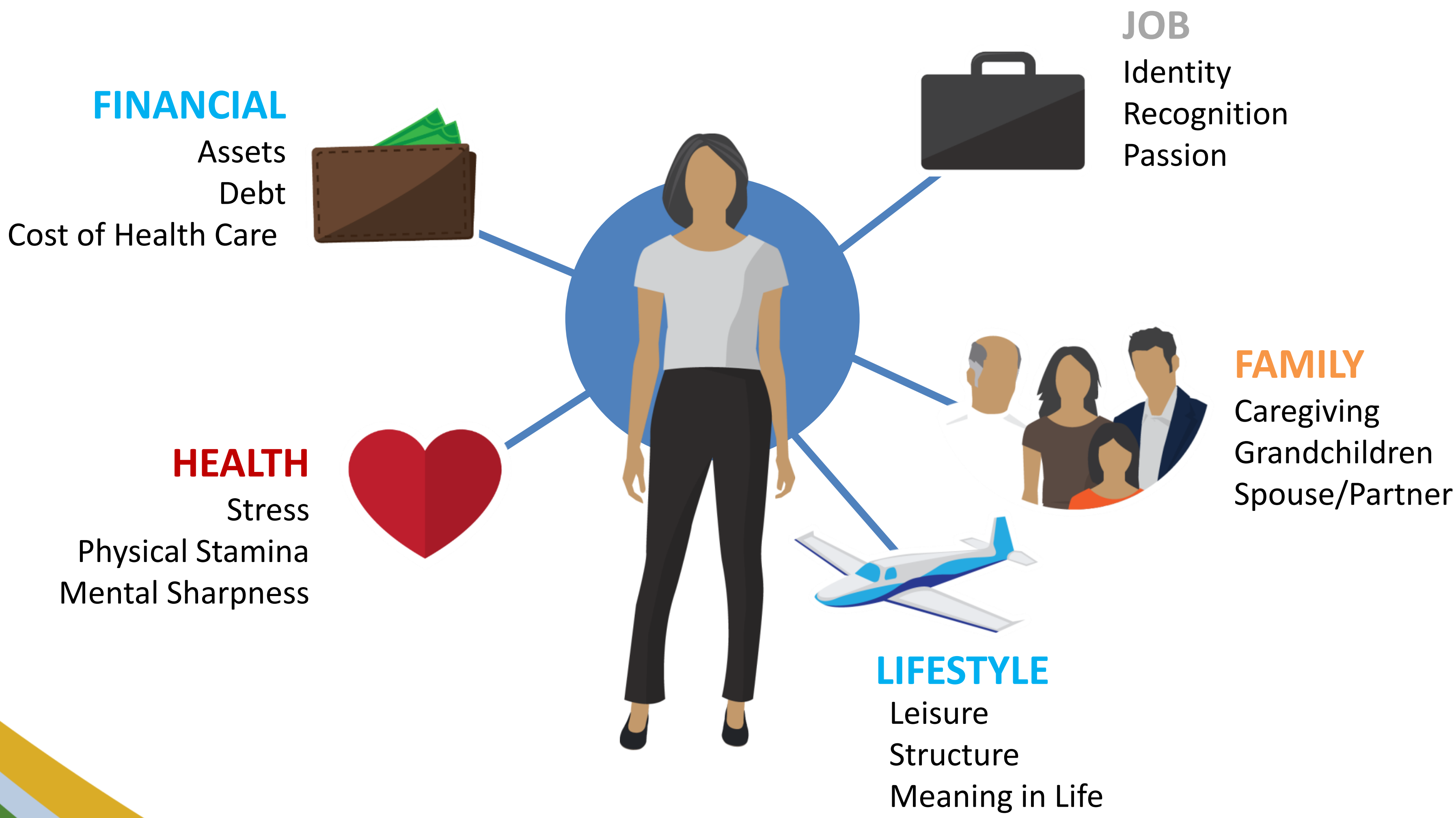
All Five Dimensions Play a Role



Identified Three Phases

CLIMBING
10+ years

- Finances outweigh others
- Happy with job
- Good health

BASE CAMP
2-9 years

- Starting to feel like they have enough
- Less interested in new opportunities
- Physical stamina starts to decline

SUMMIT
< 2 years

- Significantly less debt
- Increased job-related stress
- Desire to spend time with family

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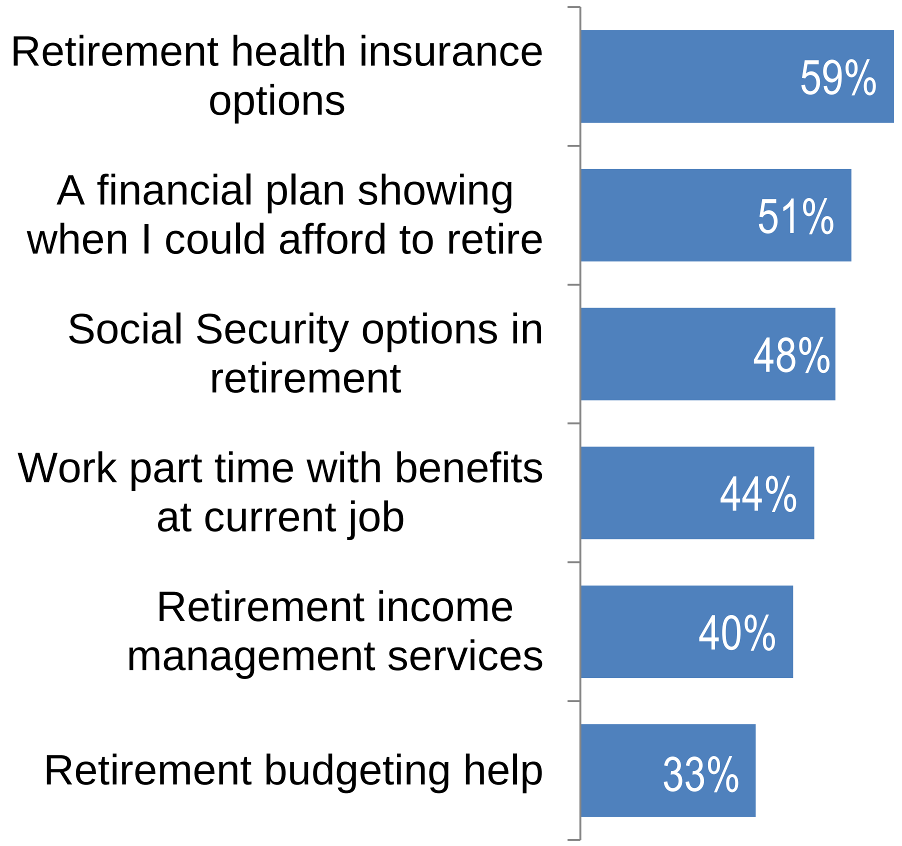
What **help** are pre-retirees looking for?



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Offer this type of help…	Climbing (10+ yrs.)	Summit (<2 yrs.)	…when pre-retirees want it
Social security options in retirement	50%	37%	Early on
Financial plan showing when I could retire	59%	39%	Early on
Work part time with benefits	49%	34%	Early on but later less appealing
Retirement income help	40%	41%	Consistently
Retiree health care options	55%	57%	Consistently - later more important

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Help Pre-Retirees Are Looking for by Phase

CLIMBING
10+ years

- Understanding Social Security
- Financial plan
- Working part –time with benefits

BASE CAMP
2-9 years

- Understanding Social Security
- Financial plan
- Working part-time
- Income planning
- Understanding retiree HC options
- Working part-time with benefits

SUMMIT
< 2 years

- Income planning
- Understanding retiree HC options

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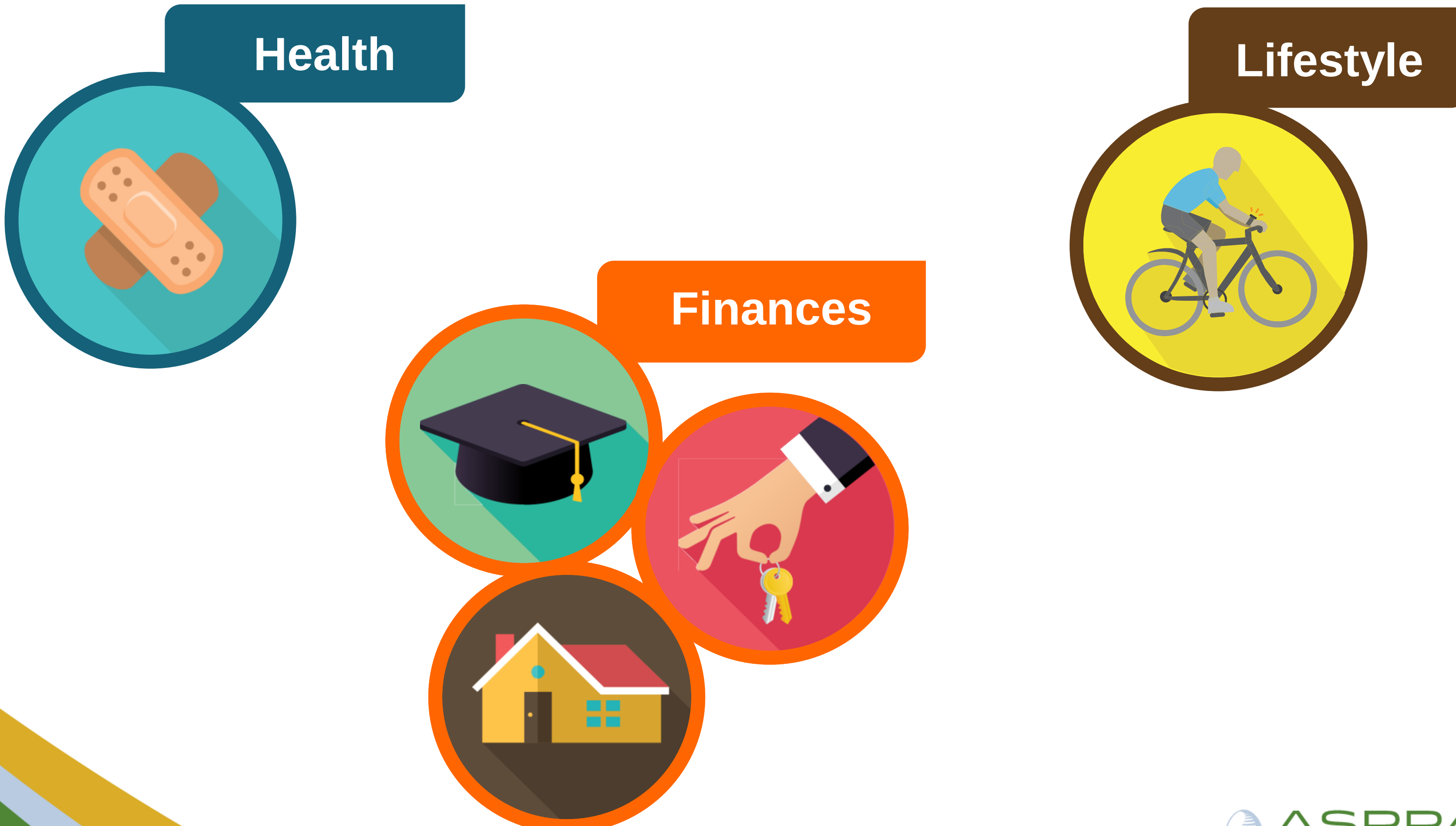
Everyday

For Many Employees, Saving for Retirement Isn't a Top Priority



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Employee's Needs Are Changing

50%

of employees would have trouble coming up with $1,000 in an emergency.[1]

More than

60%

don't create a budget to live by.[2]

33%

making $100,000 or more have credit card debt, and nearly **one-quarter** of them struggle to make payments.[3]

[1] State Street Global Advisors, Biannual DC Investor Survey, March 2015.
[2] National Foundation for Credit Counseling, Financial Literacy Survey, March 2014.
[3] PWC Employee Financial Wellness Survey, April 2015.

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Employers and Employees Need to Build Financial Wellness Together

29%

of employees have missed work at least once in the past year due to emotional stress related to finances.[1]

86%

say it's important for employers to offer financial wellness programs, yet fewer than half say their companies offer one.[3]

37%

spend three hours or more at work each week thinking about or dealing with personal financial issues.[2]

97%

of employers feel at least somewhat **responsible** for helping employees improve financial wellness.[4]

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[1] State Street Global Advisors Biannual DC Investor Survey, March 2015
[2] PwC Employee Financial Wellness Survey, April 2015
[3] Jellyvision and Harris Poll, "What Your Employees Think about Financial Wellness Programs," October 2015
[4] Bank of America Merrill Lynch 2015 Workplace Benefits Report

Employers Are Drawing Up Blueprints for Success

- Budget
- Debt
- Savings & Investments
- Retirement Transition
- Health Care Costs
- Protection Plan

To Build the Right Foundation, Get Personal

Through personalization, you can engage employees based on their current needs and offer guidance to help solve their specific needs.

Living paycheck to paycheck

The Goal:
Help create financial stability.

Focused on today, but thinking about tomorrow

The Goal:
Help them establish healthy financial habits.

Juggling multiple priorities

The Goal:
Help them prioritize saving and spending needs.

Looking to the future

The Goal:
Help them set and achieve long-term financial goals.

Financially established

The Goal:
Help them make informed decisions for the future.

How Does Financial Wellness Fit Into Your Benefit Strategies?

Consider the specific challenges of your employees

Are you interested in promoting good spending and saving habits to help workers avoid increased debt and financial stress?

Are you concerned about helping those nearing retirement with Medicare and Social Security questions?

Are you focused on attracting and retaining millennials?

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Getting Started

What does the **data tell you?**

Are you ready for the full program or just **the basics?**

Does financial wellness align to your **workforce strategy?**

Do you want to **start small?**

Questions?

AMERICAN SOCIETY OF PENSION PROFESSIONALS & ACTUARIES

ASPPA

50TH ANNIVERSARY

50 YEARS OF MAKING RETIREMENT PLANS WORK