Testimony
of

Julia McCarthy
Executive Vice-President, Fidelity Investments

Before a hearing of the

Senate Committee
On
Health, Education, Labor and Pensions

January 31, 2013

Overview

While Fidelity shares the concerns that many Americans are not adequately prepared for retirement, we know from analysis which savings behaviors work for a majority of 401(k) plan participants. The steps are straightforward, enroll in your workplace plan – the earlier, the better, save at the highest levels possible, increase your deferral rate periodically as your salary grows, invest in a diversified asset mix, and, finally, own your plan, stick with it, stay engaged, and avoid taking out loans or cashing out when you change jobs.

Yet, Fidelity also knows from its direct interactions with retirement plan participants that saving is not always simple. The testimony focuses on three specific areas which Fidelity knows works in helping people increase their savings outcomes – but which need additional improvements in order for more Americans to reap the full power of their benefits.

Three Key Areas of Focus

1. **Increase the default deferral rate to 6%:** Auto-enrollment has helped enroll many more participants in retirement savings plans but the default deferral rate for many plans is too low. Currently the safe harbor rules for 401(k) plans start at a 3% default deferral rate. Our experience is that participants who are auto-enrolled, regardless of the rate -- 3%, 6% or higher -- are likely to take no additional action with regard to saving more for retirement. With opt-out rates virtually identical at each 3% and 6% respectively, steps should be taken to increase the default deferral rate to 6%.

2. **Auto Annual Increase Programs simplify savings increases:** Annual Increase Programs are the single most effective driver of deferral increases at Fidelity. Our data show that close to one third of all deferral increases last year were attributed to an annual increase program. Unfortunately they are underutilized; only 11% of plans offer *automatic* annual increase programs – the rest requiring participants to pro-actively enroll in an *annual step* increase. More can be done to incent plans to adopt these important auto-features.

3. **Financial education and guidance lead to better savings outcomes:** More than ever, workers are expected to bear the burden of saving and planning for retirement income needs on their own. They need help understanding a range of financial topics – from the most basic information about how to enroll in their plan, and how much they should save to more complex topics such as proper asset allocation and retirement income planning. Our data shows participants who receive guidance take action and have better outcomes -- increased participation, increased savings and improved asset allocation. Policymakers should look to protect and promote the availability of education and guidance by service providers and recordkeepers.

Opening Statement

Chairman Harkin, Ranking Member Alexander, and members of the committee, good morning, and thank you for this opportunity today.

My name is Julia McCarthy, and I am an Executive Vice President at Fidelity Investments, within our workplace investing business. We have the privilege of delivering Defined Contribution, Defined Benefit, Health & Welfare, Non Qualified and Health Savings plans to nearly 16 million plan participants from our more than 22,000 plan sponsor clients.

My area of responsibility is to understand participant needs and behaviors, and build solutions and engagement models to ensure that the participants we service receive the best experience in the industry, and that they are ready for retirement. Fidelity takes very seriously the responsibility to ensure that plan participants know how to save, how much to save and how to invest for retirement.

The Need to Save

I would like to thank you, Mr. Chairman and Ranking Member Alexander, for bringing attention to the issue of retirement security and - more specifically - the importance of ensuring American workers are saving sufficiently for retirement. We share your concern that many Americans are not adequately prepared for retirement, and

that reliance on Social Security alone, is not enough. Yet we know from analysis of our participant data what savings behaviors work for a majority of 401(k) plan participants. The steps are straightforward, enroll in your workplace plan – the earlier, the better, save at the highest levels possible, increase your deferral rate periodically as your salary grows, invest in a diversified asset mix, and, finally, own your plan, stick with it, stay engaged, and avoid taking out loans or cashing out when you change jobs.

We know that saving is not always simple. I'd like to focus on three areas which we know work in helping people increase their savings outcomes – but which need additional improvements in order for more Americans to reap the full power of their benefits.

1. Participant Inertia: A Simple Remedy

It has been more than six years since the Pension Protection Act of 2006 was enacted. While the results under this law have been impressive, more needs to be done to harness the power of automatic plan features and defaults. The default deferral rate for many plans is too low. Currently the safe harbor rules for 401(k) plans start at a 3% default deferral rate. Our experience is that participants who are auto-enrolled, regardless of the rate -- 3%, 6% or higher -- are likely to take no additional action with regard to saving more for retirement. Our data show that 61% of participants who are auto-enrolled make no change from the default deferral amount, and opt-out rates are virtually identical at each 3% and 6% respectively.

2. Simplifying Savings Through Auto Annual Increase Programs

Annual Increase Programs are the single most effective driver of deferral increases at Fidelity. Our data show that close to one third of all deferral increases last year were attributed to an annual increase program. Unfortunately they are underutilized, only 11% of plans offer *automatic* annual increase programs – the rest requiring participants to pro-actively enroll in an *annual step* increase. Automatic annual increase programs that are linked to coincide with annual salary increases to minimize the impact to an employee's net take-home pay are most effective.

3. Participant Education and Guidance

More than ever, workers are expected to bear the burden of saving and planning for retirement income needs on their own. They need help understanding a range of financial topics – from the most basic information about how to enroll in their plan, and how much they should save to more complex topics such as proper asset allocation and retirement income planning. Participants who receive guidance take action and have better outcomes -- increased participation, increased savings and improved asset allocation.

For example:

- Participants who engage in an online retirement planning session increase their deferrals by an average of 5 percentage points, raising them from 8% to 13%.
- After using an on-line retirement planning tool, 55% of participants who make under $30,000 increased their deferral rate by 4.3 percentage points.
- Participants who go through a retirement planning session with a telephone representative increase their deferral rate by an average of 6% percentage points. (3% to 9%)

One theme that is consistent in all of our research is that the majority of participants want and need help.

Participants are also in need of simple ways to gauge their savings progress. Last fall, Fidelity released new research on age-based savings guidelines. These guidelines serve as a framework for establishing retirement savings goals. As participants progress through their careers, their "salary times a factor of X" can be one of the measures used to assess their retirement savings progress. While Fidelity provides retirement guidance that allows participants to develop and evaluate their retirement plans using a variety of different measures, we have found that a simple to understand savings target is a framework that resonates with both participants and plan sponsors. We believe this approach will be helpful to workers who switch jobs frequently, and who may have a number of retirement accounts thus making it even more difficult to evaluate one's savings strategy.

Closing Statement

There is a path to retirement security for most Americans, but the road is not always an easy one. Many key constituencies have a role in ensuring success.

- First, **plan participants** need to take an active role in saving and managing their financial future;
- Second, **plan sponsors** need more flexibility in the rules and regulations to design benefit plans which meet the diverse needs of their workforce without risk of fiduciary liability and increased coverage cost;
- Third, **service providers, like Fidelity,** need to continue to innovate around how to help plan sponsors optimize their benefit programs and service participants based on their needs;
- And last, we ask **policymakers** to consider key areas to improve retirement savings outcomes:
    - increase the default deferral rate to 6%,
    - incent more plans to adopt auto-features currently available, such as automatic annual increase programs,
    - protect and promote the availability of education and guidance by service providers and recordkeepers,
    - modernize and simplify the current regulatory framework to allow innovation in plan design and participant communications,
    - explore new ways to help incent younger workers to build solid savings habits by enrolling earlier in their working careers, and

- partner with school administrators, businesses and nonprofit organizations to help ensure all students have access to quality financial literacy.

As the leader in providing 401(k) recordkeeping services to the workplace, Fidelity is in a unique position to analyze savings and investment trends, recommend new products and services, and help millions of American workers save more in their retirement accounts. Fidelity is committed to partnering with you, Mr. Chairman, and Ranking Member Alexander, and members of your committee as you work toward solving these issues.

Again, I thank you for the opportunity to appear today and share our perspective and experience in helping Americans save for retirement. I am pleased to take your questions.

Appendix

Senate Committee on Health, Education, Labor and Pensions
Hearing on Pension Savings: Are Workers Saving Enough for Retirement

Testimony of Julia McCarthy, EVP, Fidelity Investments
January 31, 2013

Before investing in any mutual fund, please carefully consider the investment objectives, risks, charges, and expenses. For this and other information, call or write Fidelity for a free prospectus or, if available, a summary prospectus. Read it carefully before you invest.

Fidelity Perspectives | September 2012

Do Your Participants Have What It Takes to Retire?

When helping employees plan for retirement, it's fair to say that the more money saved, the better. But how much savings is really enough? The truth is, a host of economic, demographic, and lifestyle variables make this seemingly straightforward question particularly difficult to answer.

Today's younger workers, for example, are likely to switch jobs more frequently than generations past. According to a recent survey, more than 90% of so-called Millennials (those born between 1977 and 1997, also known as Gen Y) expect to remain in any single job three or fewer years.[1] As a result, members of this generation could hold 15 to 20 separate jobs during their working lives. Multiple jobs lead to the accumulation of multiple retirement accounts and a fragmented, clouded picture of progress toward retirement readiness. Moreover, job switching presents workers with a number of unwelcomed opportunities to cash out, causing potentially significant setbacks in the pursuit of financial security after work.

This transient dynamic in the workplace, along with increasing life expectancy, escalating health care costs, and uncertainty about the future of Social Security all portend a looming retirement savings crisis for many. Indeed, an estimated 20% of retirees will exhaust their savings within 10 years of their retirement.[2]

Despite this sobering outlook, Fidelity believes it's critical to help participants determine if they are on track towards their retirement savings goals throughout the course of their careers.

Getting on Track and Staying There

Employees attempting to set a course toward a financially secure retirement are looking for help and asking for it explicitly.

Setting up stepwise savings goals for employees and linking it to salary simplifies the process of determining if they are on track. Fidelity advocates that as participants progress through their careers their target multiples, or X's, of their salaries can be used as the goal for retirement savings. For example, at age 35, this Fidelity guideline suggests a participant should have saved 1X their current salary. Using these multiples makes the concept of saving for retirement a bit easier to comprehend, and therefore, potentially more achievable.

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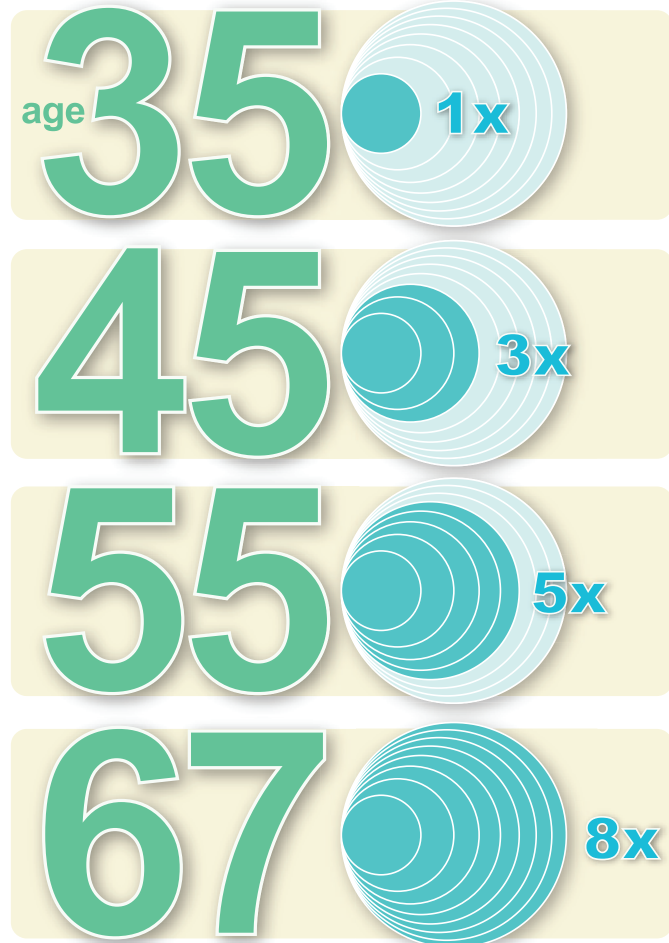
While every individual's situation will differ greatly based on desired lifestyle in retirement, the average worker can expect to replace 85 percent of his pre-retirement income[3] by saving at least 8 times, or 8X, his ending salary.[4] In order to reach the 8X level by age 67,[5] Fidelity suggests workers should aim to save about 1X their salary by age 35, 3X by age 45, and 5X by age 55. The target amounts include all retirement savings vehicles.

What is important to note is the savings multiple in comparison to salary. Fidelity analysis suggests that for most individuals the best way of achieving the recommended 8X goal at retirement is to ensure that the multiple target goals are met along the way. These hypothetical guidelines can help employees to meet the suggested income replacement rate of 85% in retirement. Since the 85% or 8X may seem daunting as an end goal, Fidelity believes that breaking the retirement planning process down to an age-based goal — especially for younger workers — will help make the savings process seem more attainable.

This example of targeted savings could be positively or negatively impacted by any number of variables including breaks in employment, working past age 67, changes to the Social Security model, or individual asset allocation decisions. There is no one-size-fits-all number; however, using this method as a guide should generate the necessary questions and conversations to get employees thinking and ultimately prompt them to take action.

Fidelity Age-Based Savings Guidelines

The average worker may replace 85% of his or her pre-retirement income by saving at least 8 times, or 8x, their ending salary. Here's how much an average worker should have saved at milestone ages to reach 8x:



ASSUMPTIONS

- Saving 6% beginning at age 25 and increasing by 1% a year to 12%
- 3% annual employer contribution
- No breaks in service or contributions; no loans or withdrawals
- Retirement age of 67
- 5.5% average annual hypothetical portfolio growth rate
- 1.5% annual salary increase
- Receives full Social Security benefit
- Living to age 92

Source: Fidelity Investments

This hypothetical chart is for illustrative purposes only. It is not intended to predict or project investment results. Your rate of return may be higher or lower than that shown in the hypothetical illustration above.

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To help employees assess their situation, education programs that explain the importance of debt reduction and the need to establish an emergency fund to avoid the negative impact of loans and hardship withdrawals as well as helping employees avoid interruptions in their savings history are critical to long-term success. Guidance and education via online tools, in-person sessions, or telephone consultations — can also play a critical role in engaging participants and bolstering their retirement readiness.

Leading the Way

While the responsibility for preparing for retirement is a clearly a shared one, plan sponsors can lead the way with innovative, automated, plan design features that get participants saving early, saving more, and — with the help of strategic goal-setting and ongoing guidance — saving enough. The three steps outlined below can help move participants in the right direction.

Step 1 Encourage employees to begin saving as early in their careers as possible. Early participation in a retirement savings plan can have an enormous impact on long-term wealth accumulation. This is especially critical as the DC savings plan will likely be the primary retirement funding vehicle for generations to come.

Step 2 Implement auto-enrollment (AE) with an automatic Annual Increase feature. Not only does AE support the goal of early savings for the youngest workers, it also boosts plan participation rates overall. According to Fidelity's latest data, the average participation rate in plans with AE is approximately 90%, far higher than the 67% rate in plans without it. Fidelity data also shows a marked increase in savings rates by employees when employers marry a higher default deferral rate with an automatic escalation provision such as an Automatic Increase Program (AIP). Only 6% of participants offered an AIP elect to enroll on their own.[6] Requiring employees to opt out of an AIP rather than opting in exposes a much larger number of participants to the benefits of higher deferral rates.

Step 3 Promote the use of guidance and planning tools. Fidelity's MyPlan Snapshot® online savings tool allows participants to anticipate how much they need to save for retirement which can help set savings goals. From there, our Income Simulator tool can help them translate their savings into an estimated monthly income stream during retirement.

As we've noted, retirement planning is not an easy matter to tackle but plan sponsors can help move their participants in the right direction by following this simplified guideline of target multiples, optimizing plan design and encouraging their employees to seek guidance. For more information on helping participants reach retirement savings sufficiency, contact your Fidelity representative.

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[1]Future Workplace "*Multiple Generations @ Work*" survey of 1,189 employees and 150 managers, June 2012.

[2]The EBRI Retirement Readiness Rating:™ Retirement Income Preparation and Future Prospects, July 2010.

[3]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.

[4]All dollars are today's dollars, not future value.

[5]The age when workers born 1960 or later are eligible for full Social Security benefits.

[6]Fidelity Investments recordkept data of corporate defined contribution (DC) plans of nearly 20,000 plans and 11.8 million participants as of June 30, 2012.

Guidance provided by Fidelity is educational in nature, is not individualized, and is not intended to serve as the primary or sole basis for your investment or tax-planning decisions.

myPlan Snapshot is an educational calculator.

Income Simulator is an educational tool.

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Fidelity Perspectives | Summer 2011

Reducing Regret in Retirement

New Fidelity survey provides insight on participant sentiment and decisions relative to enrollment, savings and early withdrawals

In this post-recession economy, many Americans are more focused on saving and are increasingly more prudent in their spending. As individuals consider their options, a recent Fidelity survey reveals that Defined Contribution (DC) plans such as 401(k)'s and IRAs play more prominently in their ability to save. A key finding is that more than half (55%) of current DC participants agree that they would not be saving for retirement if it weren't for their DC plan. In addition, employees of all ages view their DC plans as an effective way to save money for retirement. In fact, just under half of working participants indicated that the DC plan is critical to meeting their financial goals and is the only way they are saving for retirement.

With the DC plan becoming the foundation for so many as a means to retirement income, employers may be wondering why employees aren't doing more to grow and preserve their account for its intended purpose. Interestingly, one third of retired and about half of working participants said they wished they had contributed more to their retirement savings. Many expressed regret at borrowing from their account.

The survey of 1,000 working and retired DC plan participants conducted in February 2011, underscores the role that DC plans have come to play in employees' retirement savings efforts. Among retirees, it also reiterated and reinforced how having some form of a financial plan can boost confidence and help reduce negative behaviors such as taking loans or cashing out.

Consider these highlights from the survey results:

- More than 95% of those surveyed cited DC plans are a good way to save money for retirement
- 85% of those currently working as well as 86% of retirees indicated they wouldn't have saved as much for retirement without a DC plan
- 90% of current workers surveyed said DC plans influence their choice of an employer
- 39% of retirees and 29% of working participants who have taken a loan cited they would not take a loan if faced with the same decision again
- IRAs are the most commonly held non-DC plan savings vehicle (37%) for current workers

This paper delves into the results to better understand what drives employee retirement savings decisions. The study examines employees' rationale for participating, why they save as much as they do, and whether they regret any of their retirement savings decisions.

Published by: Fidelity Investments

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Company Match Drives Enrollment Decisions

Perhaps the most critical retirement savings decision an employee can make is their first decision—enrolling in their employer's DC plan. With that realization in mind, we surveyed DC plan participants about what factors helped to overcome any inertia or indecision and drove them to enroll in the first place.

The most common reason given by current workers across all age groups was the desire to take advantage of company matching contributions. The majority of working participants (92%) surveyed indicated this was an important factor. Employers seem to be cognizant of this preference, as 83% of working employees indicated they receive some type of employer contribution. In addition, only 13% of working employees said their employers reduced or suspended matching contributions during the past three years, an indication that many employers are hesitant to take this important benefit away from employees, even during a recession.

Tax benefits were another common driver of plan participation, with nine out of ten indicating they believe their DC plan offers a good way to save for retirement on a tax-deferred basis. This sentiment was even more pronounced among pre-retirees, who generally earn more and may be subject to higher tax rates.

There also seems to be widespread support for auto-enrollment, although this attitude is more prevalent among retired DC participants (perhaps due to their own experiences trying to save for retirement). Among retirees, nearly three quarters agree that all employees should be automatically enrolled in a workplace retirement savings plan.

Raise in Pay Leads to Increases in Deferral Rates

The majority of current DC plan participants (54%) feel that saving more will improve their financial outlook for retirement. This attitude is particularly prevalent among the youngest employees (those age 25 to 34). Of course, one way to contribute more is to spend less. Yet, only 14% of working DC plan participants indicated that spending less was the one thing they could do to improve their financial outlook for retirement.

Despite the challenging economic environment of the past two years, 17% of employees indicated they increased their deferral rates within the past year and an additional 12% did so within the past 12 to 24 months. Fidelity recordkept data echoes these findings—by the end of the first quarter of this year, nearly 10% of active plan participants increased their deferral rate—the largest portion to do so since Fidelity began tracking this figure in 2006.[1] Receiving a raise or having extra money available were the most common reasons given for increasing deferral rates. This seems to be an encouraging sign that some employees understand the importance of increasing deferral rates whenever possible.

As employees close in on retirement, their efforts to save through their DC plan take on additional urgency. Approximately one out of four pre-retirees ages 55 + indicated the need to save more to meet retirement goals was their reason for upping their contributions.

- While many employees made every effort to defer as much as possible over the past five years, 23% of those still working reported they had decreased their salary deferral rates. Of those that have ever decreased deferrals, 34% cited that the money was needed to cope with a spouse/partner's layoff, they needed the extra money for an emergency fund, or their employer suspended the company match.

Many Older Workers Save the Maximum Allowed; Younger Workers Saving What They Can Afford

Among retirees surveyed, one third indicated they deferred the maximum allowable by law in the period prior to retirement. Another 29% of retirees deferred the amount necessary to receive a full company match and 27% deferred the most they could afford. Conversely, among employees who are still working, only 15% are deferring the maximum amount, 31% are deferring enough to earn the company match, and 43% are deferring all they can afford.

The youngest employees surveyed were least likely to defer the maximum amount allowed (12%). It's possible that this population is grappling with college loans, saving for a down payment on a home, or may simply not earn enough to defer more salary. Nevertheless, convincing younger employees to defer the maximum allowable amount could produce tremendous long-term benefits for them.

Regrets, they've had a few…

Many DC participants indicated they made decisions that they later regretted. For example, among retirees, one-in-three said they wished they had contributed more to their retirement savings. Among those who decreased salary deferrals, 26% of current employees lamented that decision.

Taking a loan, hardship withdrawal, or full payout when changing jobs was another source of regret for retirees and current employees alike.

- Among retirees who had taken a loan, nearly 4 in 10 cited they would not make the same decision again, whereas roughly 30% of working participants felt the same way – many may not regret the decision until they're actually in retirement.
- Roughly 40% of both working and retired participants regretted their decision to withdraw money for an emergency.
- More than half of working participants cited that they regretted the decision to take a full payout when leaving a job. Many retirees may take full payouts to consolidate accounts and/or to purchase annuities.

Having A Financial Plan Leads To Better Decision Making

The existence of a complete financial retirement plan—or lack thereof—is another important factor impacting one's decision on how much to contribute to their DC plan. Three out of four working employees with a financial plan increased their salary deferral rate at some point in their careers, while only 59% of those without a plan reported doing so. Those without a plan were also somewhat more likely to increase salary deferrals out of a necessity to catch up later in life than those with a plan.

A consistent theme: having a plan can help – and the earlier the better

The existence of a complete financial retirement plan appears to play an important role in the level of regret experienced by participants. For example, those with a financial plan—and therefore more likely to have a better understanding of their financial situation—were more likely to regret their decision to decrease salary deferrals (34% versus 25%) than those participants without a complete plan and potentially in the dark on the ultimate impact of their decision.

The existence of a complete financial retirement plan also appears to produce better savings habits. Among retirees, those with a plan were significantly less likely to have:

- Taken a loan (18% vs. 30%)
- Taken a hardship withdrawal (16% vs. 34%)
- Taken a full payout (25% vs. 37%)

Current employees with a plan were also less likely to withdraw assets early than those without a plan (26% vs. 35%). Among working participants, the level of regret over decisions to take early withdrawals was for the most part similar, whether or not the employee had a financial plan. Only time will tell if these employees come to regret these decisions later in life.

Three steps employers can take to help employees minimize regret or leave employees with no regret

These results demonstrate that better educated and prepared employees make better retirement savings decisions. They are less likely to withdraw assets prior to retirement and even if they do need to do so, they are less apt to regret their decisions if they have prepared a comprehensive retirement financial plan.

Of course, employees are unlikely to make any meaningful progress toward a financially secure retirement if they do not start participating in their DC plans as soon as possible. To motivate employees to get started and help increase their chances of success, employers must:

1. Communicate the benefits of contributing to a DC plan in simple terms to all employees—and the importance of maximizing every opportunity to save more.
2. Automatic enrollment for all eligible non-participating employees—not simply the newly hired—provides another, even more efficient way to overcome the dual challenges of employee enrollment and savings rates. Combining automatic enrollment with an Annual Increase Program (AIP) can help employees save more and put them on a path toward a secure retirement.
3. Most importantly, while automatic plan features can get employees started, they will need guidance along the way to avoid making decisions they may come to regret later. Promoting the benefits of having a plan and offering guidance through planning tools, workshops, and one-on-one consultations may produce better results for employees and employers alike.

For more information, contact your Fidelity Representative. Or visit www.fidelity.com/forum.

[1]Based on our analysis of nearly 16,500 corporate DC plans and 11 million participants as of March 31, 2011.

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What Can Saving More Really Get You?
(More than you might think…)

A *Building Futures* Report: Q3 2012

Average Account Balances Reach an All-Time High

At the close of Q3, average defined contribution (DC) account balances had reached $75,900[1]—an all-time high—while the average account balance among 10-year continuous DC participants totaled $198,800[1].

Fidelity recommends a 10%–15% total savings rate.

While the news is good and the trend is clearly positive, a closer examination of participant data reveals that deferral rates are a key driver in accumulating savings. According to Fidelity's latest data, covering more than 20,000 DC plans and 12 million participants, total savings rates average 12%, composed of 8% from employee contributions and 4% from employers. This total rate falls within Fidelity's recommended range of 10%–15% and Fidelity analysis reveals that increases in employee deferral rates can have dramatic effects on participant account balances over time.

In this first in a series of studies of participant behavior and associated outcomes, Fidelity analysis quantifies the substantial benefits participants can reap from deferring more and identifies steps plan sponsors can take to help employees realize the advantages.

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A Leading Lever in Driving Better Outcomes: Deferral Rates

It's intuitive that if you save more you should end up with more. But it begs the question: how much more? To quantify the difference between savings rates Fidelity profiled two DC plan participants — "Trisha" and "Thomas"[2], who have been proactive about saving for retirement. Trisha and Thomas are remarkably similar. Both are in their mid-forties, earn roughly $45,000[2] annually, and had exactly the same balanced asset allocation over the past twelve years; they each currently are invested approximately 70% in equities. Both had less than $6,000 for plan DC account balances 12 years ago, and both make pre-tax contributions to their plan and receive company contributions each year. Neither has ever taken a loan or a hardship withdrawal.

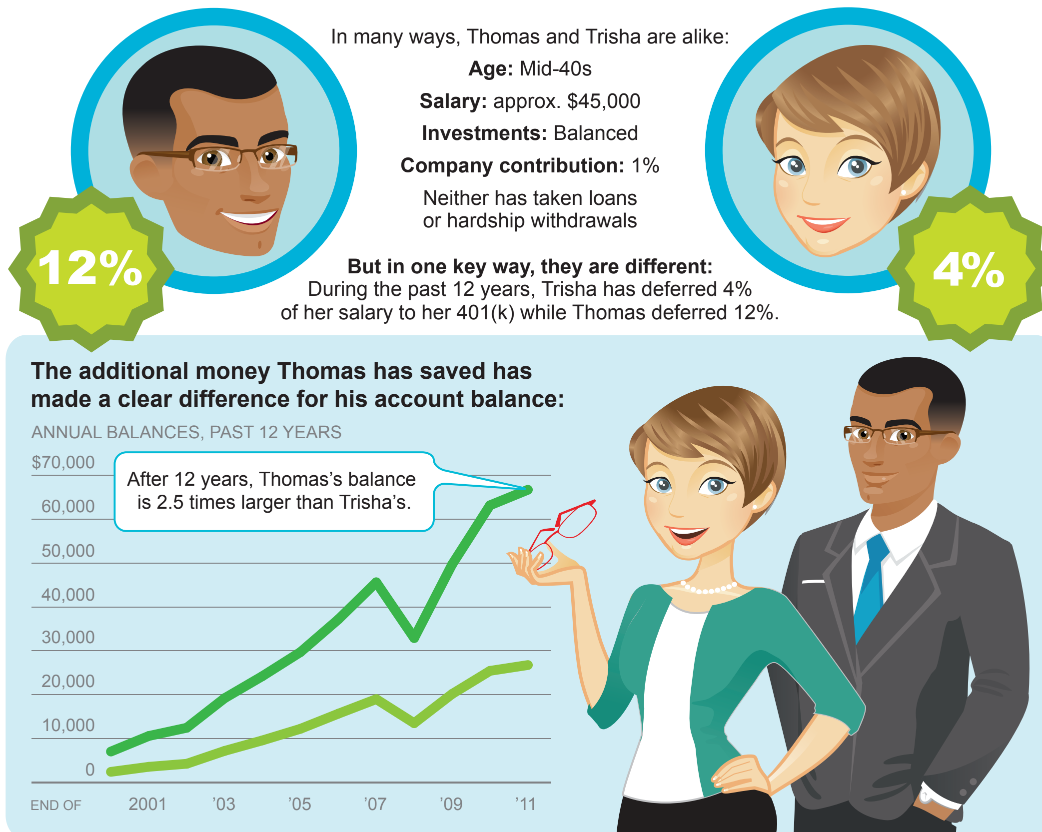
Similarities aside, Trisha's and Thomas's investor profiles diverge in one critical area—their deferral rates. And that has made a big difference.

Trisha's Account Balance Grows

Trisha contributes 4% of her salary annually and receives a 1% core contribution from her employer. As shown in our illustration, Trisha's account balance has increased over the past 12 years to its current total of $27,000.

In reviewing Trisha's account, we can see that her DC account balance has grown, and she still has approximately 20 years in the workforce during which she can continue to save. But how does Trisha's situation compare with Thomas's?

Figure 1: Deferrals Drive Outcomes for "Thomas" and "Trisha"[2]



Reference Disclosure Below

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Thomas Makes Bigger Strides

Like Trisha, Thomas benefits from a core employer contribution of 1%. However, Thomas has consistently saved two to three times as much as Trisha. He deferred 12% of his salary for the past 5 years and 8% annually prior to that. Thomas's current total savings rate is 13% versus Trisha's total savings rate of 5%. The additional money Thomas saved has produced impressive results.

While Trisha's account balance grew to over $27,000 during the past 12 years, Thomas's grew to a balance of over $68,000. In this case, the additional 8% Thomas contributed over Trisha has resulted in a retirement savings balance that is two-and-a-half times larger than Trisha's. Clearly, Thomas's higher deferral rate over the last 12 years has left him better prepared for retirement. Despite the fact that they had the same savings potential, Thomas is more on target demonstrating that higher deferral rates are critical to successful retirement planning.

How Can Plan Sponsors Help?

As the participant case study of Thomas and Trisha depicts, the effects of participant choices relative to their retirement savings are magnified over time. Thus, it's critical that plan sponsors work with plan providers, their advisors and consultants to not only educate employees early and often about the impact their decisions can have over time on their outcomes but also structure their plan design to promote optimal behaviors.

Accelerating Savings

For workers facing the economic realities of the here and now, retirement planning can be a daunting proposition. As a result, many are subject to inertia by either not participating in their DC plan or they set it and forget it once enrolled and very infrequently, if at all, increase their deferral rate. In fact, according to Fidelity data, 61% of participants who are auto-enrolled make no change from the default deferral amount[1].

Auto-escalation drives 1/3 of all deferral increases[1].

To combat such participant inertia, sponsors can implement the automatic annual increase programs (AIPs) to boost deferral rates. AIP can be linked to coincide with annual salary increases to minimize the impact to an employee's net take home pay. AIP is the single most effective driver of deferral increases, as 33% of all deferral increases during the past 12 months were due to AIP and for young workers (age 20–30) 52% of all deferral increases are due to AIP[1]. In addition, Fidelity data reveals that very few employees decline to participate; 93% of those enrolled by their employer remain within the program[1].

Putting Employees on a Better Path

Fidelity data shows that the opt-out rates in plans with a 3% automatic enrollment default rate are virtually identical to those in plans with a default rate of 6%[1]. Automatically enrolling employees at a savings rate that will set them down the right path—such as 6% combined with an annual increase at 1% a year up to 10% or 12%—can help drive better outcomes without adversely affecting participation. In addition, 16% of auto-enrolled employees who received an email and telephone call from a Fidelity representative to orient them to their plan increased contributions, and on average their deferral rates nearly doubled (3.5% to 6.7%)[3].

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Know Where Your Opportunities Lie

Plan sponsors should look beyond the averages to examine participant behaviors. Learn which employees aren't participatin and why. Identify participants missing out on a full company match and those who have never increased their deferral rates. By understanding these participants more fully, sponsors are better able to respond with timely information, targeted communications, and appropriate guidance.

Thomas and Trisha are saving, which is the first step on the road to retirement readiness; however, there is more that may help them and others to be fully prepared for retirement. Identifying where your participants stand and targeting populations that may be lagging is critical to helping participants prepare for retirement.

Guidance can lead to higher deferral rates[3].

For more information, contact your Fidelity representative.

[1]Based on Fidelity analysis of 20,222 corporate DC plans (including advisor-sold DC) and 12M participants as of 9/30/2012.

[2]While the information provided herein is based on actual Fidelity workplace savings plan participant behavior, "Thomas" and "Trisha" are fictitious names and the examples provided are for illustrative purposes. Trisha started with a beginning balance in 2001 of $1,869 while Thomas's beginning balance in 2001 was $5,544. Approximately 20% of the end account balance growth is contributed to market return/conditions. Both participants were allocated 70% to equities. Actual salaries used were $44,944 and $45,098. The data is based on Fidelity research from 6/30/2000 through 6/30/2012.

[3]Fidelity Investments, CKC Onboarding Results from January–July 2011; based on 192,000 auto-enrolled participants.

Keep in mind that investing involves risk. The value of your investment will fluctuate over time and you may gain or lose money.

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A Building Futures Report: Q4 2012 Trends

Before investing in any mutual fund, please carefully consider the investment objectives, risks, charges, and expenses. For this and other information, call or write Fidelity for a free prospectus or, if available, a summary prospectus. Read it carefully before you invest.

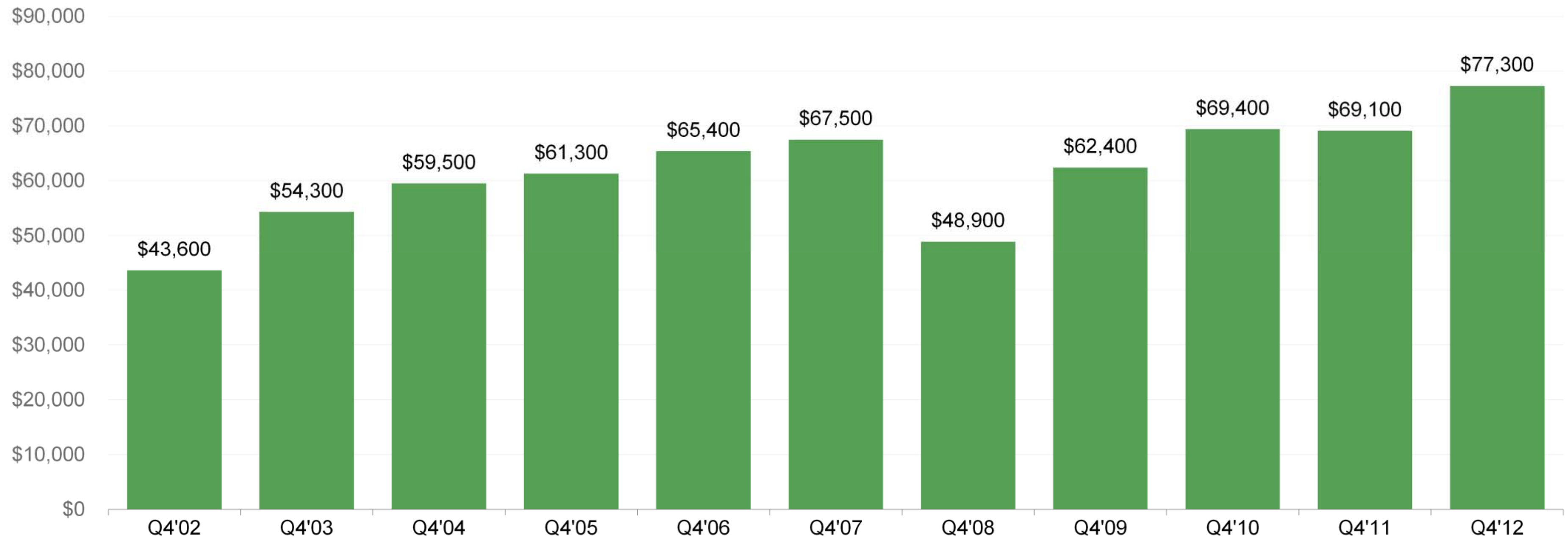
Fidelity Investments: An industry leading retirement provider

Fidelity's recordkept database is one of the industry's most comprehensive proprietary collections of defined contribution plan and participant information.

- Based on recordkept data of corporate defined contribution (DC) plans:
  - Over 20,000 plans
  - 11.9 million participants
- Data as of December 31, 2012 unless otherwise noted[1]

[1] Data in this presentation exclude tax-exempt plans, nonqualified plans, and the FMR Co. plan. This analysis includes data from the Fidelity Advisor 401(k) Program.

Account Balance



Key Insights

- Currently, the average account balance is $77,300, an increase of 11.9% from one year prior.
- The median participant account balance is $23,600.
- Account balances are impacted by both participant actions (contributions, withdrawals, etc.) and market action.
- Account balances are also impacted by new participants having *lower* account balances than departing participants who may roll out their assets.

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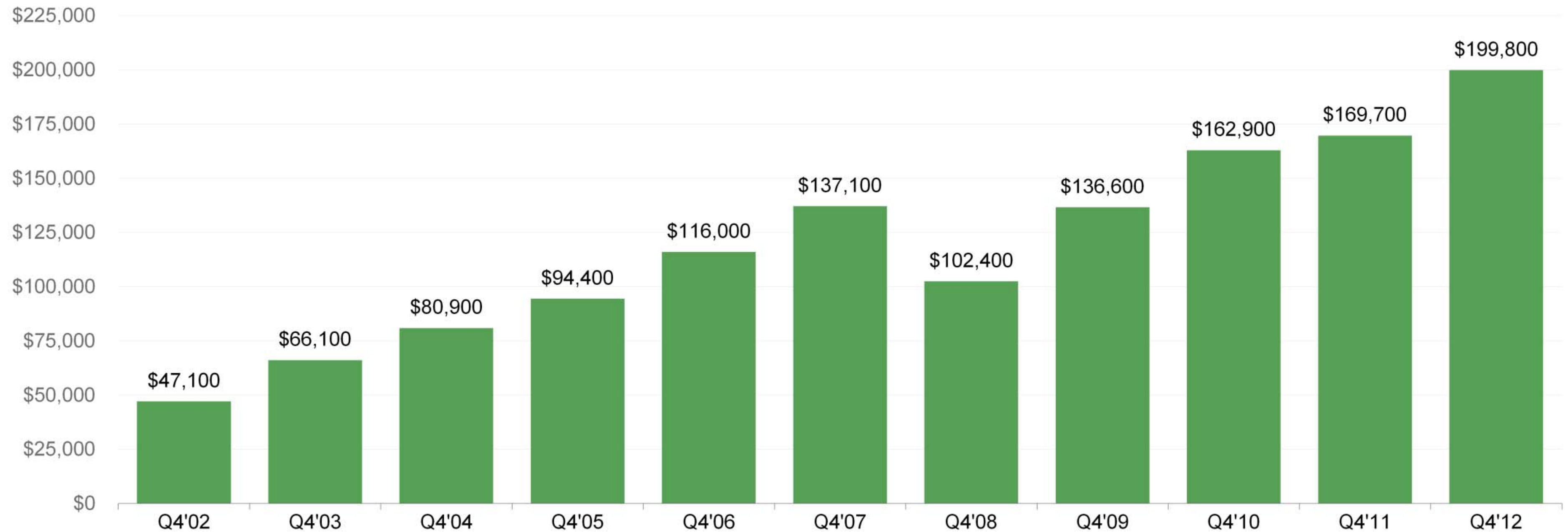
Account Balance (10-Yr Continuous Active Participants)



Key Insights

- The 10-Year Continuous Active Account Balance follows the *same participants* over time to show what they experienced during the last ten years.
- These participants had a $199,800 average account balance, up from $47,100 ten years prior (15.5% annual increase).
- This account balance increase was 53% due to participant action (net contributions) and 47% due to market increases.

Continuous Active Participants are actively employed with a balance for each year endpoint during the 10-year period.

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Deferral Rates

Total Savings Rates (12 Mo)

	Q2'06	Q4'06	Q2'07	Q4'07	Q2'08	Q4'08	Q2'09	Q4'09	Q2'10	Q4'10	Q2'11	Q4'11	Q2'12	Q4'12
ER Contribution Rate	4.0%	4.0%	4.1%	3.9%	4.1%	3.9%	3.9%	3.8%	3.8%	3.8%	4.1%	4.1%	4.2%	4.0%
EE Deferral Rate	8.7%	8.7%	8.6%	8.6%	8.5%	8.1%	8.0%	8.0%	8.0%	8.0%	8.0%	8.1%	8.0%	8.0%
Total	12.7%	12.7%	12.7%	12.5%	12.5%	12.0%	11.9%	11.8%	11.8%	11.8%	12.1%	12.1%	12.2%	12.0%

Key Insights

- The average deferral rate has remained steady for three years.
- Currently, the average deferral rate is 8.0%.
- Other than participant actions of increasing/decreasing deferrals (next slide), this figure is impacted by new participants joining the plan having *lower* deferral rates than departing participants leaving the plan.

Active Participants Only. Mean elective total deferral rates (point-in-time).

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Changes to Employee Deferral Rates

Percent of Continuous Active Parts Changing Employee Deferral Rates (3-Month)

Quarter	Decrease	Increase
Q4'08	6.3%	4.0%
Q1'09	6.4%	5.7%
Q2'09	3.1%	4.7%
Q3'09	3.1%	4.4%
Q4'09	2.9%	5.0%
Q1'10	3.4%	7.5%
Q2'10	2.8%	5.3%
Q3'10	3.1%	4.2%
Q4'10	3.0%	6.0%
Q1'11	3.1%	10.0%
Q2'11	2.7%	6.1%
Q3'11	3.5%	4.2%
Q4'11	3.1%	5.5%
Q1'12	3.7%	9.6%
Q2'12	2.8%	5.9%
Q3'12	2.8%	4.6%
Q4'12	3.1%	5.8%

Key Insights

- In the prior 3-months, 5.8% of participants made an employee deferral increase.
- In plans that offer Auto-AIP, 8.4% of participants had employee deferral increases in the prior 3-months.
- The long-term trend of more employee deferral increases than decreases was interrupted during Q3’08 - Q1’09, but has resumed since (15 consecutive quarters).
- Annual Increase Program (AIP) is a big driver of this trend, see “Deferral Increases due to AIP” slide.

Continuous Active Participants Only (3-month). Mean elective total deferral rates (point-in-time).

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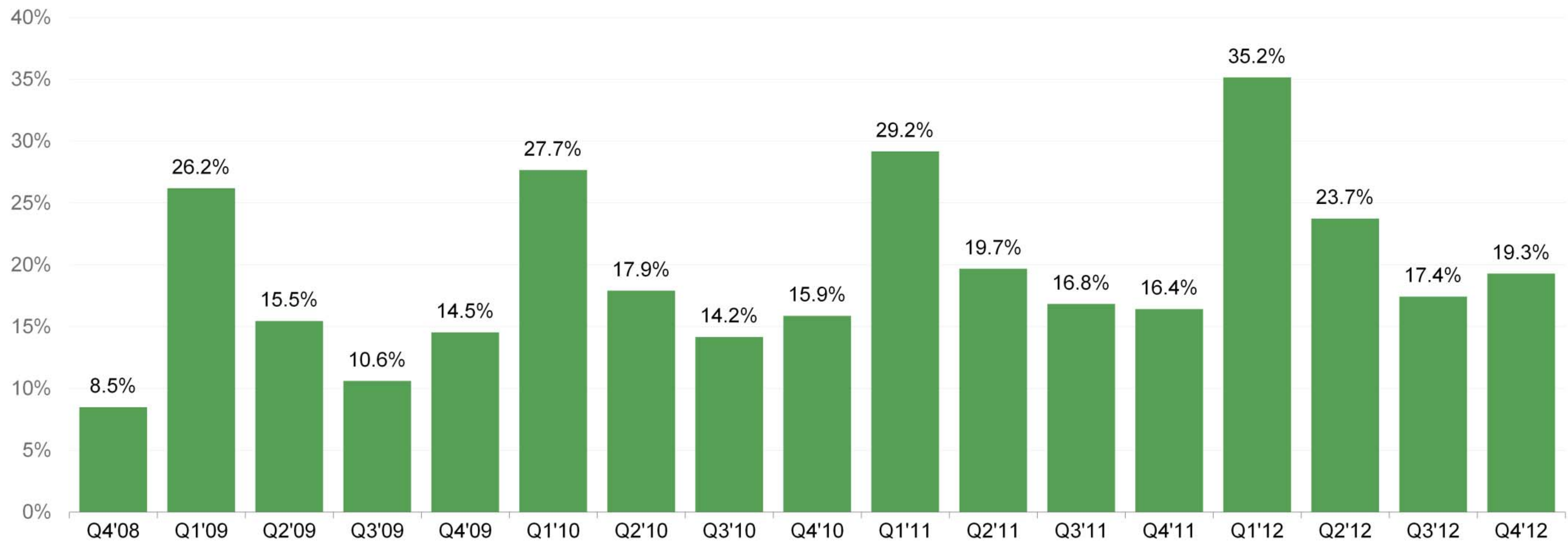
Employee Deferral Increases due to AIP



Key Insights

- Annual Increase Program (AIP) was responsible for 19.3% of deferral increases made in the prior quarter.
- AIP represented nearly one-in-three (32.7%) of all deferral increases in prior 12-months.
- The seasonality is due to the majority of AIP increases occurring in Q1.

Continuous Active Participants Only (3-month).

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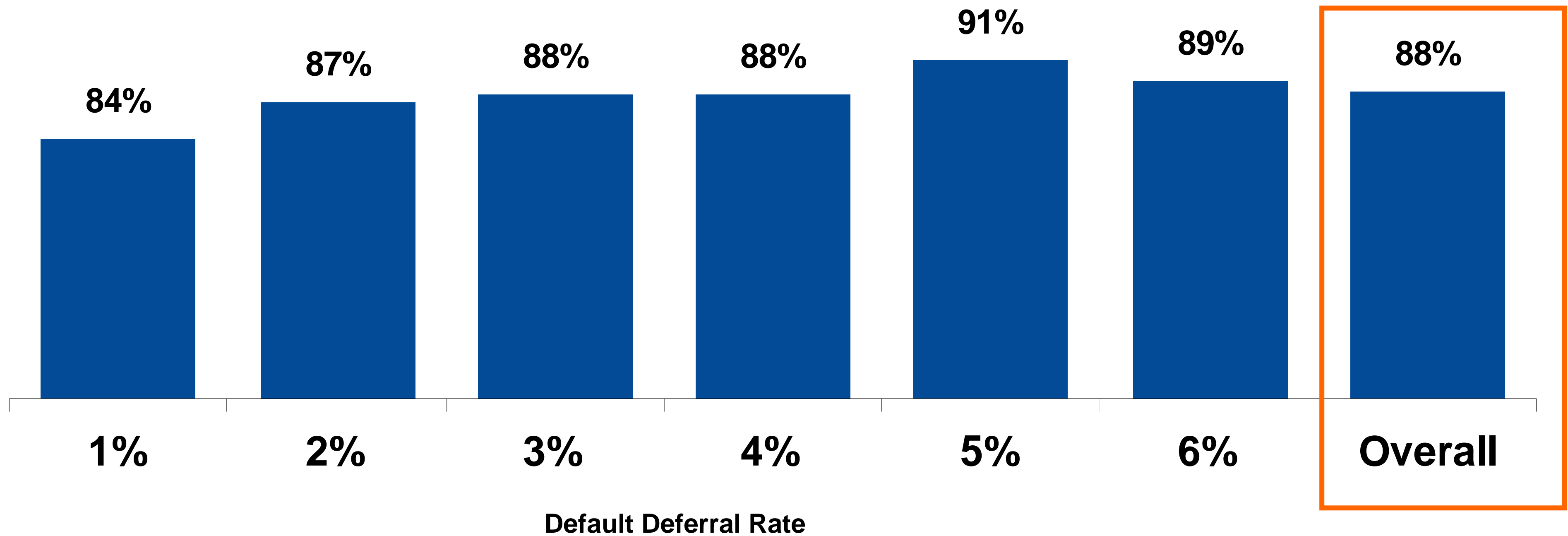
Regardless of the default deferral rate very few participants opt out



Based on Fidelity recordkept data of 20k corporate defined contribution (DC) plans and 11.9 million participants as of December 31, 2012

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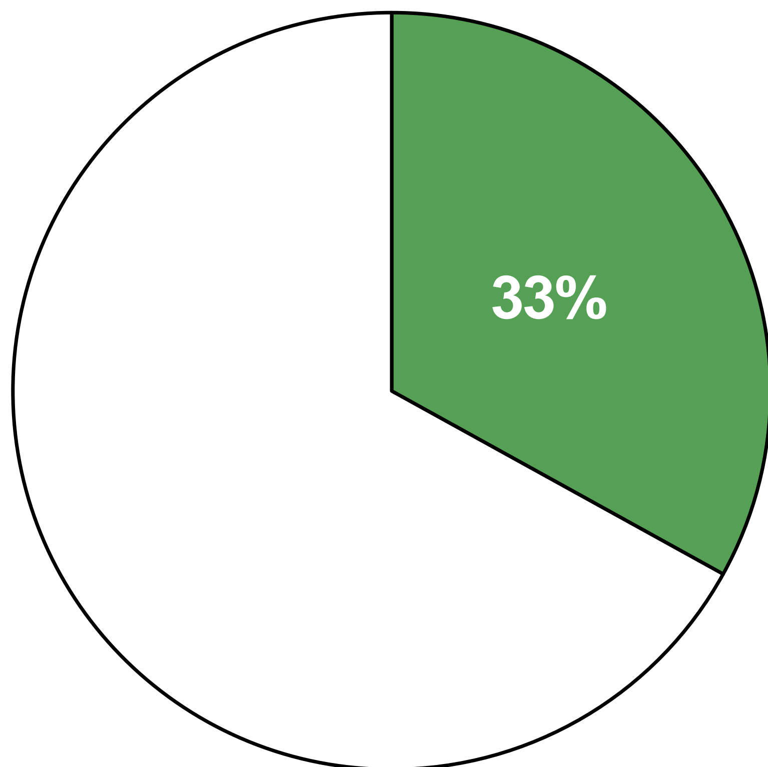
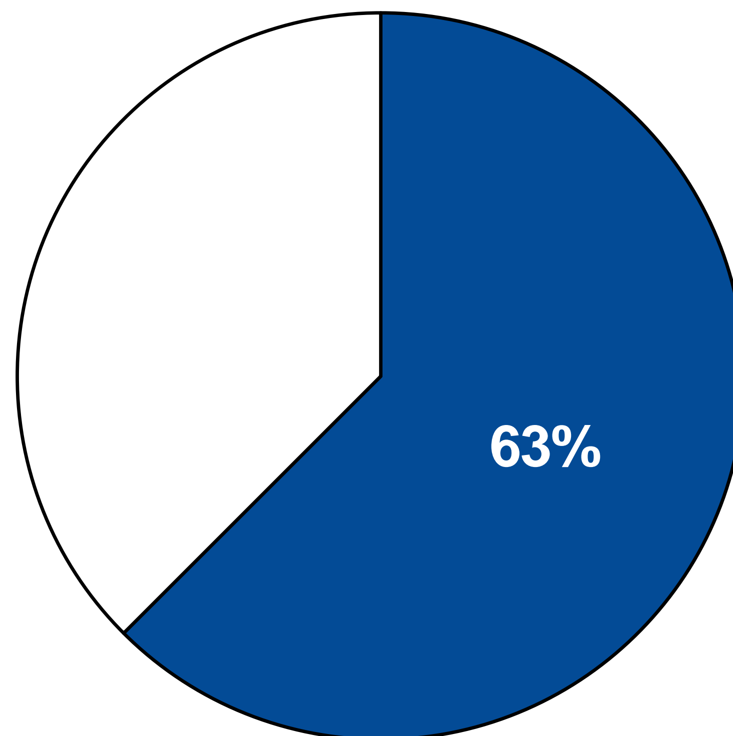
The annual increase program drives 63% of all deferral increases for the youngest participants

Percentage of deferral increases due to Annual Increase Program

(12 month period)





Based on Fidelity recordkept data of 20k corporate defined contribution (DC) plans and 11.9 million participants as of December 31, 2012

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Auto-Enrollment (AE) Impact to Participation Rate

Active Participation Rates

Age	Overall	AE Plans	AE Eligibles
20-29	50.9%	81.9%	90.8%
30-39	67.2%	83.9%	90.8%
40-49	71.3%	84.2%	90.4%
50-59	74.0%	85.2%	90.2%
60-69	70.4%	83.0%	87.0%
70+	44.7%	64.9%	74.0%
Overall	67.0%	83.8%	90.3%

Key Insights

- Younger, less well-compensated employees benefit from Auto-Enrollment (AE).
- The overall active participation rate is 67.0%, up from 64.1% four years prior due to impact of AE.
- In plans who offer AE, the participation rate is 83.8%, which has also increased as more employees become eligible for AE within those plans.
- Further, those employees who are eligible for Auto-Enrollment in AE Plans have a participation rate of 90.3% (i.e. only 9.7% opt-out).

Data as of 12/31/2011. Active Eligible Employees Only.

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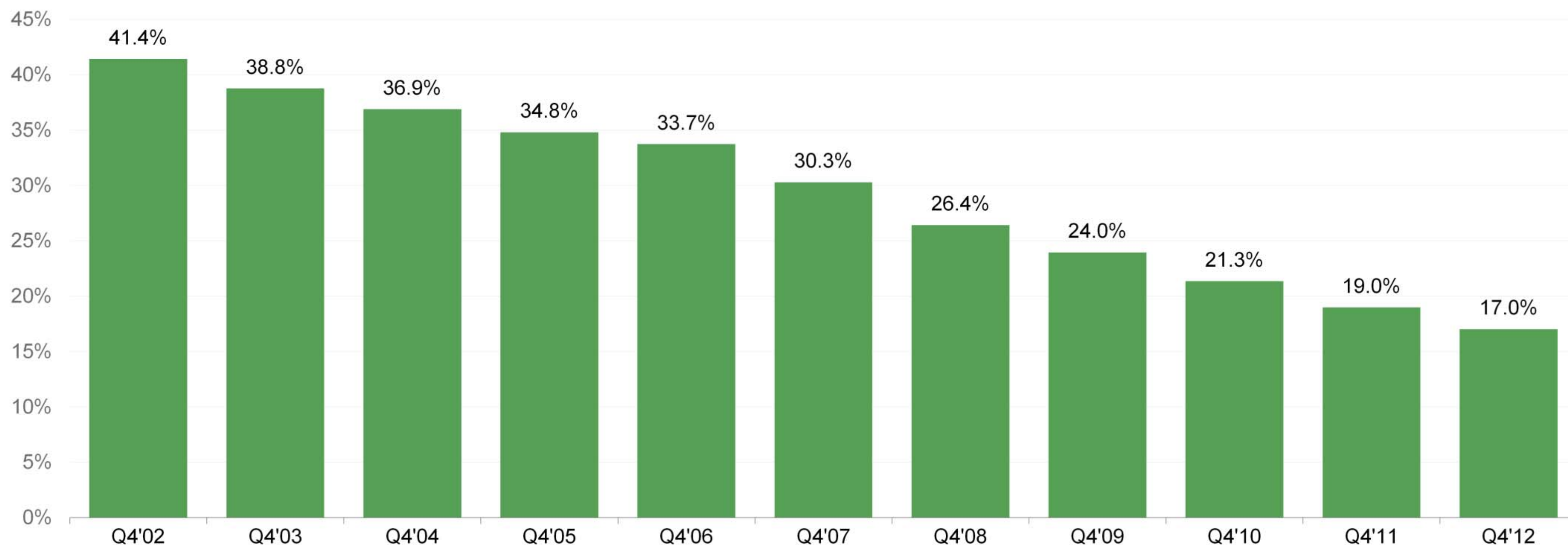
100% or 0% Equity Allocations



Key Insights

- For many participants, equity allocation was an “all-or-nothing” decision.
- Mainly through the increased use of Target Date Funds, fewer participants now hold such extreme portfolios.
- Only one-in-six participants (17.0%) hold 100% or 0% equity allocations.
- For more on this topic, see the Equity Allocation 3D Graph.

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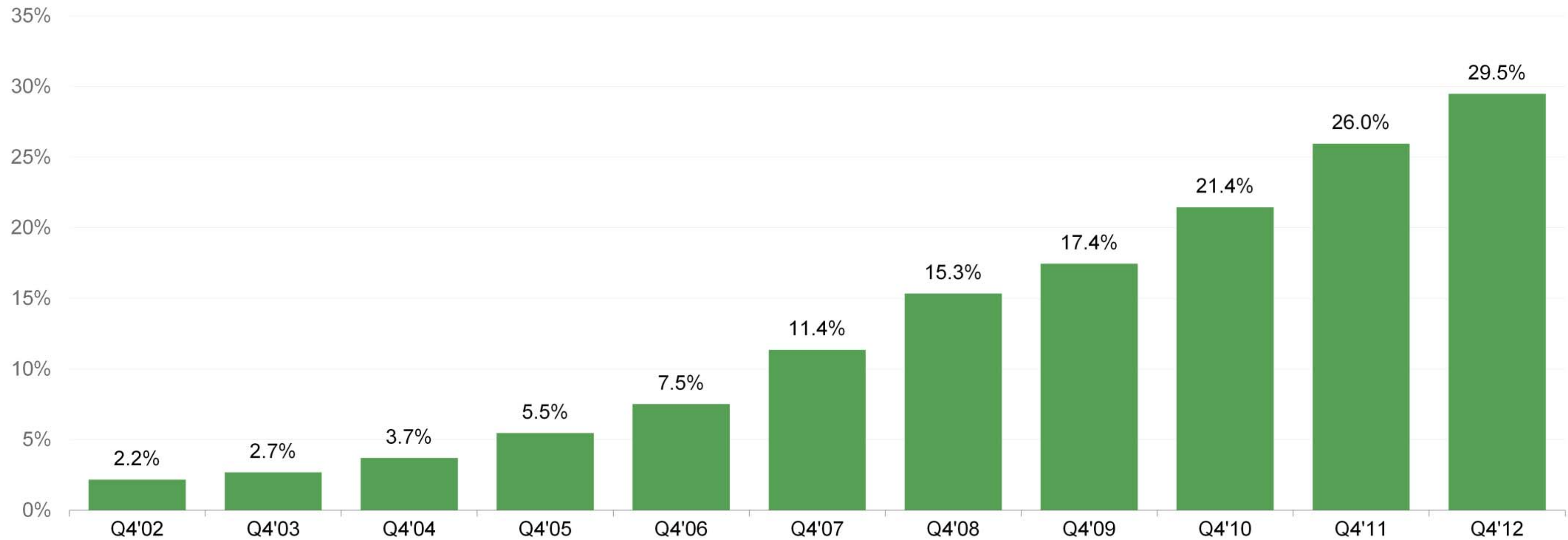
Target Date Fund Adoption



Key Insights

- Nearly one-in-three total participants (29.5%) holds 100% of their assets in Target Date Funds.
- For Generation Y, this figure is 50.4%.
- This trend has been chiefly driven by the use of Target Date Fund (TDF) Default.
- Default options have a sizeable impact on aggregate participant behavior.

Generation Y was born between 1979 – 1991.

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Average Contribution Amounts

Average Contribution Amounts (12-Months)

	Q4'02	Q4'03	Q4'04	Q4'05	Q4'06	Q4'07	Q4'08	Q4'09	Q4'10	Q4'11	Q4'12
Employer	$2,200	$2,400	$2,470	$2,610	$2,850	$2,810	$3,100	$2,950	$3,170	$3,280	$3,430
Employee	$4,570	$4,800	$5,050	$5,230	$5,390	$5,470	$5,640	$5,460	$5,680	$5,760	$5,890

Key Insights

- The average 12-month employee contribution was $5,890, up from $4,570 ten years prior (per participant making >$0 employee contributions).
- This represents a 2.6% annual increase in employee contribution amounts.
- The average 12-month employer contribution was $3,430, up from $2,200 ten years prior (per participant receiving >$0 employer contributions).
- This represents a 4.5% annual increase in employer contribution amounts.

Active Participants Only.

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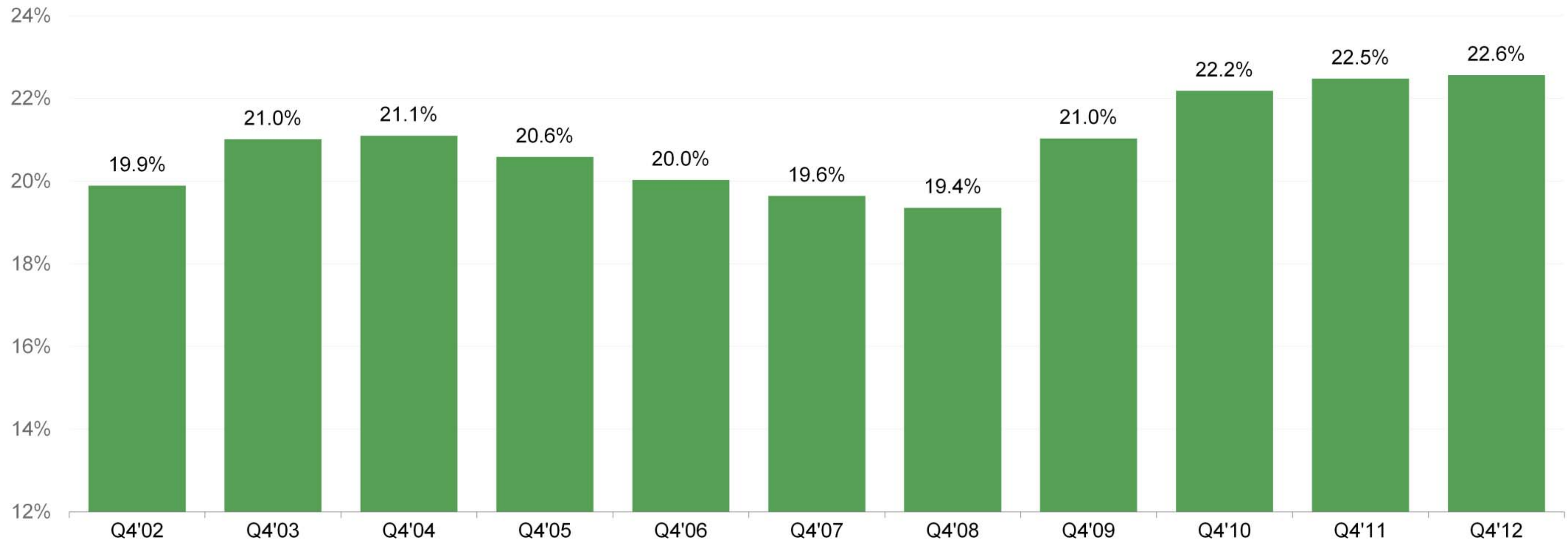
Loans Outstanding



Key Insights

- The percent of active participants with a loan outstanding is 22.6%.
- The percent of active participants initiating a loan in the prior 12-months is 10.8%.

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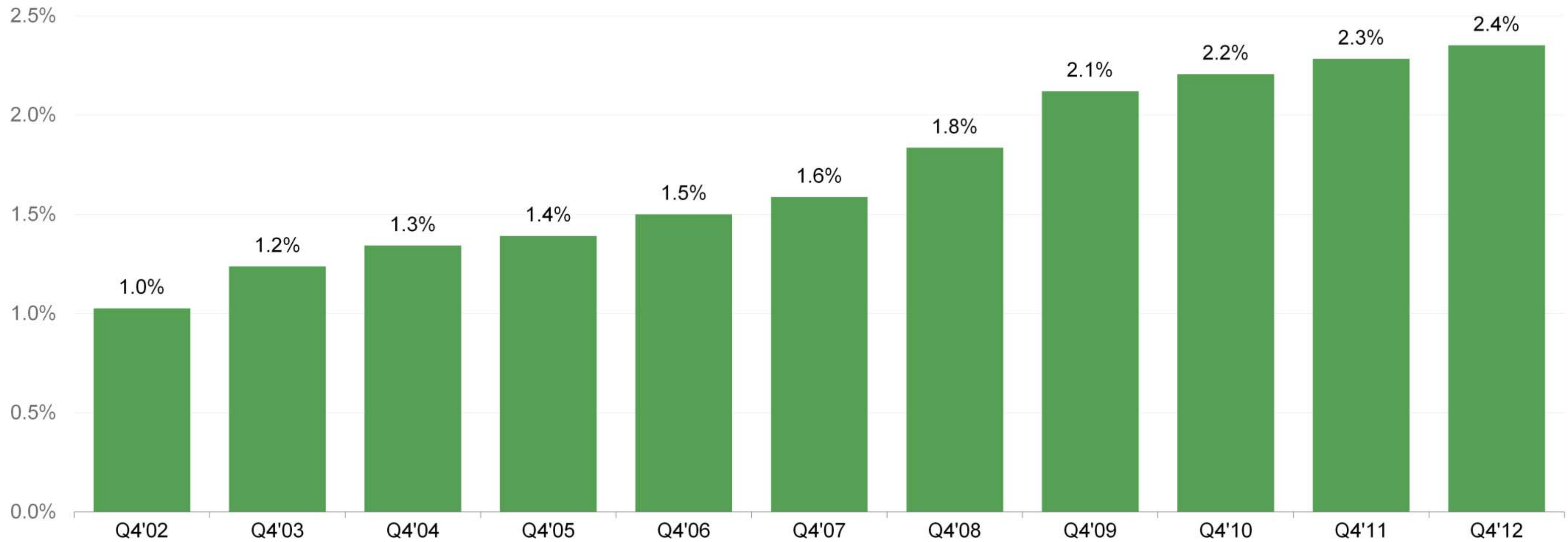
Hardship Withdrawals



Key Insights

- While hardship withdrawals (HWs) continue to increase, they represent a very small portion of active participants.
- The percent of active participants taking a hardship withdrawal was 2.4% in the prior 12-months.
- In order to take a hardship withdrawal, you have to prove a financial need.
- Examples of reasons for HWs: 1) foreclosure, 2) tuition, 3) purchase of primary residence, 4) medical expenses.

Active Participants Only.

Important Additional Information

Before investing in any mutual fund, please carefully consider the investment objectives, risks, charges, and expenses. For this and other information, call or write Fidelity for a free prospectus or, if available, a summary prospectus. Read it carefully before you invest.

As with all your investments through Fidelity, you must make your own determination whether an investment in any particular security or securities is consistent with your investment objectives, risk tolerance, financial situation and your evaluation of the security.

Personal Rate of Return (PRR): A measure of portfolio performance that indicates the return earned over a given time period. Personal rate of return used in our analyses (unless otherwise noted) is time weighted, which means it was calculated by subtracting beginning market value from ending market value and dividing by beginning market value for each sub-period. A new sub-period began each time there was cash flow. The sub-period returns were then geometrically linked together to calculate the return for the entire period. All returns shown are historical and include change in share value and reinvestment of dividends and capital gains, if any. Risk is defined as the volatility of historical portfolio returns; it measures the average deviation of a series of historical returns from its mean. Large values of risk indicate large volatility in the historical return series, and small values indicate low volatility.

Keep in mind investing involves risk. The value of your investment will fluctuate over time and you may gain or lose money.

Past performance is no guarantee of future results.

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Important Additional Information

Important Additional Information about Charts Showing Participant Equity Holding versus Freedom Funds' Equity Rolldown

For the equity rolldown chart, "Equities" are defined as domestic equity, international equity, company stock, and the equity portion of blended investment options. A random sample of 5,000 participant data points are plotted on the related charts. Percentage of assets invested in equities is based on data for participants in the defined contribution plans recordkept by Fidelity with a balance as of quarter end. These plans included both qualified and assetized nonqualified plans (i.e., nonqualified plans informally funded with mutual funds and other securities), as well as single-fund plans, which include Employee Stock Ownership Plans (ESOPs). Plans sponsored by Fidelity Investments for the benefit of its own employees are excluded. The Fidelity Freedom Funds® rolldown schedule on both Exhibits illustrate the Freedom Funds' target asset allocations among equities and was created by Strategic Advisers, Inc. This rolldown schedule also illustrates how these allocations may change over time. The Freedom fund future target asset allocations may differ from this approximate illustration.

Fidelity Freedom Funds® are designed for investors expecting to retire around the year indicated in each fund's name. Except for the Freedom Income Fund the funds' asset allocation strategy becomes increasingly conservative as it approaches the target date and beyond. Ultimately, they are expected to merge with the Freedom Income Fund. The investment risks of each Fidelity Freedom Funds® change over time as its asset allocation changes. They are subject to the volatility of the financial markets, including equity and fixed income investments in the U.S. and abroad and may be subject to risks associated with investing in high yield, small cap and, commodity-related, foreign securities. Principal invested is not guaranteed at any time, including at or after their target dates.

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