Overview

• Middle Age and Retirement Saving
• Importance of Education in Retirement Arena
• Role of Retirement Plan Design
  ▪ Automatic Enrollment
  ▪ Participant Statements
    • Fee Disclosure
    • Income vs. Account Balance
  ▪ Web Tools/Calculators
  ▪ DC Plan Participants Research the Distribution Decision
• Focus of Saving Goals Among Middle-Aged Households
• Research Questions
Middle Age?

• “…when [a] person is no longer considered young, usually between 40 and 60.”
  –Encarta Dictionary

• “The old believe everything; the middle aged suspect everything: the young know everything.”
  –Oscar Wilde

• “Of middle age the best that can be said is that a middle-aged person has likely learned how to have a little fun in spite of his troubles.”
  –Don Marquis
IRAs and DC Accounts Are About One-Fifth of Households’ Financial Assets

Percentage of total financial assets, 2011:Q4

- Other 50%
- Deposits 16%
- Equity in noncorporate business 15%
- DC plans 9%
- IRAs 10%
- Other 10%

Households’ Financial Assets: $50.2 trillion

Sources: Investment Company Institute and Federal Reserve Board Flow of Funds Accounts
69 Percent of U.S. Households Have Employer Plans, IRAs, or Both

Percentage of U.S. households, May 2011

- Own IRA only: 8%
- Have IRA and employer-sponsored retirement plan: 31%
- Have employer-sponsored retirement plan only: 30%
- Do not have IRA or employer-sponsored retirement plan: 31%

Total number of U.S. households: 118.7 million

Plan Sponsors Devote Resources to Participant Education

Primary purpose for providing plan education; percentage of plans, 2000 and 2010

<table>
<thead>
<tr>
<th>Purpose</th>
<th>2000</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Other</td>
<td>4.3%</td>
<td>6.7%</td>
</tr>
<tr>
<td>Retirement planning</td>
<td>13.8%</td>
<td></td>
</tr>
<tr>
<td>Transition of a merger or acquisition</td>
<td>3.5%</td>
<td>1.9%</td>
</tr>
<tr>
<td>Increase deferrals</td>
<td>10.9%</td>
<td>14.1%</td>
</tr>
<tr>
<td>Improve asset allocation</td>
<td>11.6%</td>
<td>18.0%</td>
</tr>
<tr>
<td>Introduce plan changes</td>
<td>8.9%</td>
<td>23.2%</td>
</tr>
<tr>
<td>Increase appreciation for the plan</td>
<td>13.6%</td>
<td></td>
</tr>
<tr>
<td>Increase participation</td>
<td>29.5%</td>
<td>41.6%</td>
</tr>
</tbody>
</table>

Source: Plan Sponsor Council of America; see annual PSCA member surveys
Resources Consulted for Defined Contribution Plan Distribution Decisions at Retirement

Percentage of respondents with a choice of distribution option

- Spouse or partner: 46%
- Coworker, friend, or other family member: 23%
- Professional financial adviser: 42%
- Professional financial adviser (provided by employer): 13%
- Seminar or workshop: 30%
- Printed materials: 29%
- Online retirement software (provided by employer): 3%
- Online retirement software: 5%
- Other resources: 21%

Note: Multiple responses are included; 67 percent of respondents mentioned consulting multiple sources of advice. A total of 426 respondents is included in this figure; survey of individuals retiring between 2002 and 2007 with DC accounts.

DC Plan Participants Stayed the Course

Summary of recordkeeper data; percentage of participants

- Took any withdrawal: 3.9% in 2008, 3.1% in 2009, 3.5% in 2010, 3.4% in 2011
- Took hardship withdrawal: 1.3% in 2008, 1.6% in 2009, 1.7% in 2010, 1.7% in 2011
- Stopped contributing: 3.7% in 2008, 3.4% in 2009, 2.4% in 2010, 2.7% in 2011
- Changed asset allocation of account balance: 14.4% in 2008, 11.8% in 2009, 10.3% in 2010, 0.5% in 2011
- Changed asset allocation of contributions: 12.4% in 2008, 11.8% in 2009, 10.3% in 2010, 0.5% in 2011

Note: The samples include more than 22 million DC plan participants in 2008 and nearly 24 million DC plan participants in 2009, 2010, and 2011.
Growth of Automatic Enrollment Reflects 401(k) Innovation

Percentage of plans

<table>
<thead>
<tr>
<th>Year</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>5%</td>
<td>10%</td>
<td>15%</td>
<td>19%</td>
<td>21%</td>
<td>24%</td>
<td>24%</td>
</tr>
</tbody>
</table>

2010 automatic enrollment by plan size

- All: 24%
- <1,000: 16%
- 1,000 to 4,999: 48%
- 5,000+: 45%

Source: The Vanguard Group; see How America Saves 2011
Innovation in Automatic Enrollment Design Increases Contributions

Contribution design among plans with automatic enrollment; percentage of plans

<table>
<thead>
<tr>
<th>Year</th>
<th>Initial default contribution rate</th>
<th>Default automatic increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>15% 12% 46% 27%</td>
<td>2 percentage points</td>
</tr>
<tr>
<td>2010</td>
<td>17% 10% 58% 15%</td>
<td>1 percentage point</td>
</tr>
</tbody>
</table>

Initial default contribution rate:
- 5 percent or more
- 4 percent
- 3 percent
- 1 or 2 percent

Source: The Vanguard Group; see How America Saves 2011
Default Investment Options Increase Focus on Growth and Diversification

Default investment options among plans with automatic enrollment; percentage of plans

- 6% Other
- 37% Target date fund, lifestyle fund, or managed account
- 17% Balanced fund
- 10% Money market fund
- 30% Stable value fund
- 53% use target date funds
- 2005: 3% Other, 30% Stable value fund, 10% Money market fund, 17% Balanced fund, 37% Target date fund
- 2010: 2% Other, 12% Stable value fund, 3% Money market fund, 17% Balanced fund, 83% Target date fund

Note: “Fund” includes mutual funds, collective investment trusts, and other pooled investments.
Source: Plan Sponsor Council of America; see annual PSCA member surveys
Research Questions – Automatic Enrollment

• How does the behavior of 401(k) participants who are automatically enrolled at their first job differ over their careers?
  ▪ Are they more likely to take charge or automatically enroll again?
  ▪ Is their rollover/cash out behavior different?
  ▪ Can we learn anything from how a given individual reacts to different defaults?
Focus of Saving Goals Among Middle-Aged Households

Percentage of households by age and household income, 2007

<table>
<thead>
<tr>
<th>Reason</th>
<th>Aged 30 to 44</th>
<th>Aged 45 to 64</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Below median income</td>
<td>Above median income</td>
</tr>
<tr>
<td>Retirement</td>
<td>19%</td>
<td>41%</td>
</tr>
<tr>
<td>Liquidity</td>
<td>32%</td>
<td>30%</td>
</tr>
<tr>
<td>Education, home, or purchases</td>
<td>34%</td>
<td>22%</td>
</tr>
<tr>
<td>Other</td>
<td>12%</td>
<td>7%</td>
</tr>
<tr>
<td>Can’t/Don’t save</td>
<td>3%</td>
<td>1%</td>
</tr>
</tbody>
</table>

Source: ICI tabulations of the 2007 Survey of Consumer Finances; see Brady and Bogdan (2011)
Households’ Changes to Saving, Investment Strategy, and Retirement Age in Reaction to Financial Stresses Since 2008

Percentage of households that took the action indicated, fall 2010

- Regular saving amount*
  - No change: 47%
  - Increased: 28%
  - Decreased: 25%

- Investment strategy (increased = more conservative)*
  - No change: 52%
  - Increased: 37%
  - Decreased: 11%

- Retirement age (increased = delayed or increased)**
  - No change: 70%
  - Increased: 16%
  - Decreased: 14%

*The sample is 2,039 households owning financial investments, which include DC accounts, IRAs, or other financial assets.
**The sample is 3,000 U.S. households.
Source: ICI tabulation of GfK OmniTel survey data (November and December 2010)
Research Questions – Financial “Health Check-Ups”

• How can financial service providers take advantage of timing?
  ▪ If engage on right topic at the right juncture, is there better success?
  ▪ If get individuals online, is action more likely?
  ▪ ICI research on disclosure finds investors prefer charts/graphics to words; explore formats to engage?

• How can people visualize and think far ahead?
  ▪ Changing goals over life cycle and across households
  ▪ Challenge to think about health issues and growing old
  ▪ Generating a “retirement paycheck”
References


References, cont.


