Building Financial Futures

Trends and insights of those saving for retirement across America.
Executive Notes

As we reach a new stage in the Coronavirus pandemic, Fidelity continues to keep a close eye on how this crisis is affecting how we live and work. Trends we have historically seen in retirement plans will likely be impacted by the world events of 2020 and 2021. Our focus remains on helping our customers make informed decisions about their money in this continually changing world. We are currently seeing encouraging behaviors: in Q2 2021 participants continued to improve their savings rates and balances reached a new high. And while the initiation of new loans and withdrawals increased slightly, outstanding loan balances were down as the long-term trend of decreasing loan usage continues.

Additionally, we have been tracking the emotional well-being of participants throughout the pandemic, and most recently asked a panel how they were doing in May 2021. These insights are included in the Participant Pulse.
Participant Pulse:
A Moment of balance

The COVID-19 pandemic has impacted us all. In fact, when we surveyed workplace participants, we learned that more than two-thirds of these employees said that they experienced at least one major life event in the last six months\(^1\). Many of these life events were intense, including family medical crises and losing close family members or loved ones.

Yet, according to participants, it seems as though the extremes of life may be starting to level out. Workplace participants are expressing more feelings of hope and fewer feelings of stress. They are stating that they have made fewer changes to their savings behaviors and fewer changes to their investments recently. These behaviors, paired with less extreme worry about the economy and job security, may indicate a moment of balance for your retirement plan participants\(^1\).

And while we see a slight uptick in participants feeling excellent or very good about life, concerns about finances, health, and work remain. While hope is building, participants still have many concerns\(^1\).

Many participants have indicated they are willing to make changes to how they live their lives and in their career paths. At this moment in time, will you take this opportunity to connect with your participants about how you can meet their needs heading into the future?
Participant Pulse: The impact of major life events

While it’s common knowledge that this year has been one of extremes, when we asked participants specifically about recent life events, two-thirds of participants said that they experienced at least one major life event in the last six months. Many of these life events require significant resources, emotionally and financially, with 17% experiencing a family medical crisis, 17% having to care for a loved one and 14% losing a close family member or loved one.

Life events experienced in the past six months

- 28% Did some major home improvement
- 17% Experienced a medical crisis in my family
- 17% Cared for an aging parent/family member
- 14% Experienced the loss of a close family member
- 14% Started working from home full-time

68% of participants said that they experienced at least one major life event in the last six months.
Participant Pulse: Intense emotions evened out

Intense emotions have been replaced by more stable feelings. Participants are reporting feeling significantly lower levels of extreme stress or anxiety. Positive feelings are also on the rise, though not spiking, with the exception of hopefulness (up 10 percentage points since November 2020).
Participant Pulse: Savings and investing behaviors stabilized

Savings behaviors have stabilized since the end of 2020, with less participants indicating they are “saving more” or “saving less” in the last three months. This suggests a move away from circumstances that have impacted their ability to save (health crisis, unemployment) or their fear of the latter.

In the past three months, have you saved more, saved less, or saved the same amount as the previous three months?¹

<table>
<thead>
<tr>
<th>Year</th>
<th>Saved more</th>
<th>No impact on savings</th>
<th>Saved less</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020</td>
<td>34%</td>
<td>40%</td>
<td>27%</td>
</tr>
<tr>
<td>Q2’21</td>
<td>31%</td>
<td>48%</td>
<td>21%</td>
</tr>
</tbody>
</table>

Over the past three months, how, if at all, have you changed how you are investing your retirement savings?¹

<table>
<thead>
<tr>
<th>Year</th>
<th>Conservative</th>
<th>No impact on investing</th>
<th>Aggressive</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q4 ’20</td>
<td>20%</td>
<td>68%</td>
<td>12%</td>
</tr>
<tr>
<td>Q2 ’21</td>
<td>14%</td>
<td>76%</td>
<td>10%</td>
</tr>
</tbody>
</table>
Participant Pulse: Feeling better about life, yet many concerns remain

Participants told us that many of the personal issues causing them stress in September 2020 are down significantly, yet the stressors have not gone away. In particular, concerns about the political environment and social justice issues did not change significantly. So while we have seen participants indicate they are feeling better about life, concerns about health, work and finances remain.

How do you currently feel about your...?¹
(Excellent/Very Good)

How much do you agree that each is causing you stress?¹
(Strongly/Somewhat Agree)
Participant Pulse: Ready for change

About one-third of participants said they want to make a change to their work lives in the next six months, including 5% who want to retire.¹

In the next six months, what, if any, changes do you plan to make to your work life?¹

- Look for another job outside my current company: 13%
- Others: 8%
- Start a side job: 7%
- Retire: 5%
- Take a leave of absence: 2%
- Leave a side job: 1%
- Look for another job within my current company: 9%
- I don't plan to make any work-related changes in the next 6 months: 68%

More than 1 in 4 participants (27%) said they do not plan to resume life as it was pre-pandemic.¹

Q: Please indicate how much you agree or disagree with the following statement: “When the pandemic is over, I will resume life the way things were before the pandemic”? 
3 things for employees to consider at this moment in time

Even though there will be challenging days ahead due to the COVID-19 pandemic, employees have an opportunity to re-assess changes they made to cope or stay afloat during the first 18 months of the crisis, such as decreasing their contributions to their retirement account(s), taking money from their savings plan, or changing their investment options. It’s important to connect with your participants and encourage behaviors to get back on track and plan thoughtfully for the future.

1. **Making changes to your contributions:**
   - If you had to lower your contribution, try to go back to the rate you were contributing before the pandemic.
   - Make sure you are contributing enough to get any available company match—don’t leave free money on the table.
   - If you never made a change, think about this moment as an opportunity to increase your contribution rate -- even 1% more can make a big difference over time.

2. **Recovering from a financial emergency and planning for a future one:**
   - If you needed to tap into your retirement account for a loan, make sure you have a plan for repayment, you stay up to date, and you continue your contributions.
   - If you didn’t have an emergency savings account before the pandemic, consider starting one now, so that you won’t have to tap into your retirement account when unexpected events arise.

3. **Take a fresh look at your investments:**
   - Consider if your retirement account is still invested properly for you. Have you reconsidered your time horizon for retirement? Has your financial situation changed? Do you feel the same about the risk you are willing to take on?
   - Decide if you want to manage your own investments or get help. If you don’t want to do it alone, consider a target date fund or managed account.
Defined Contribution Plan trends
DC plan participation continues to climb

Auto enrollment (AE) proves to be a changing force as DC plan participation continues to increase.

ADDITIONAL INSIGHTS²:

• 91% of employees who are auto enrolled don’t opt out.

• Participation among Millennials* has increased by 46% over the last 10 years in part due to employers adopting auto-enrollment.

[Graph showing average participation rates in DC plans from 2010 to 2020]

[Graph showing average participation rates AE plans v. non-AE plans from 2010 to 2020]

Participation data as of end of Q4 in all years. Updated annually.
Contributions hold steady

Despite these unprecedented times, very few employees or employers have decreased savings rates.

ADDITIONAL INSIGHTS²:

- 6.9% of participants contributing to their 401(k) plan decreased their deferrals during Q2 2021, down from 9.8% the year before and 7.5% in Q1 2021.

- 65% of deferral increases were due to Auto Increase Programs in Q2 2021.
With the recent market activity, balances have increased by 4.4% from the previous quarter.

**ADDITIONAL INSIGHTS**

- With average balances increasing this quarter, those who have been saving over the long-term (15 years) have saved an average of $511,900.
- Millennials* who have continuously invested in their DC plan for 15 years have an average balance of $278,600 in Q2 2021.

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**Average balance for employees continuously invested in a DC plan for 15 years**: $511,900

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**DC Average Balance**: $73,000, $80,800, $91,400, $97,700, $106,000, $129,300

As of Q2 in the year noted.
Investment diversification improves over time

With 98% of employers offering target date funds and 92% using them as the default investment option, employee diversification has improved greatly over the last 10 years.

ADDITIONAL INSIGHTS:

• Baby Boomers* are the most likely generation to be too aggressively invested—potentially putting them at risk so close to retirement.

• 69% of Millennials* are 100% invested in a target date fund, due in part to being auto-enrolled in their 401(k) and defaulted into the option.
Trends in workplace managed accounts

The percent of plans offering a workplace managed account has continued to rise.

ADDITIONAL INSIGHTS²:

- While plan sponsor adoption of managed accounts has grown, participant adoption is still relatively low.
- 50% of larger plans (with over 1,000 participants) have adopted a workplace managed account.
Trends in DC Investment Lineups
The largest corporate DC plan sponsors now offer around 15 investment options in their lineup.\(^2\)

**Large Employer - average number of investment options offered\(^2\)**

As of Q2 in the year noted

- 2011: 25
- 2012: 22.8
- 2013: 17.9
- 2014: 17.7
- 2015: 16.9
- 2016: 16.8
- 2017: 16.5
- 2018: 16.2
- 2019: 16.2
- 2020: 16.0
- 2021: 15.4

Large plans are those with approximately $500M or more in DC plan assets.
Loans and withdrawals starting to increase

While loans and withdrawals were down in Q1 2021 (after the Cares Act provisions ended in Q4 2020) newly initiated 401(k) loans and withdrawals in Q2 2021 have started to increase.

ADDITIONAL INSIGHTS:

- 2.2% of 401(k) savers initiated a new loan in the first quarter, an increase from the Q1 2021 rate of 1.6% and the Q2 2020 rate of 1.6%\(^2\).

- The percentage of workers who made a withdrawal from their 401(k), including hardship withdrawals, increased to 3.0% from 2.4% in Q1, however it remains lower than the 5.6% rate a year ago\(^2\).

- The average hardship distribution amount in Q2 was $3,700 and the median amount was $1,100\(^3\).
Outstanding loan balances down

While the initiation of new loans and withdrawals increased, outstanding balances were down.

ADDITIONAL INSIGHTS:

- Despite recent increases in Q2 2021 newly initiated loans, the percentage of workers with an outstanding 401(k) loan dropped from 20.1% in Q2 2019 to 17.5% in Q2 2021 as the long-term trend of decreasing loan usage continues.
- The average amount for loans initiated in Q1 2021 was $11,019 down slightly from $11,912 in Q1 2021.
Roth 401(k)

In just the last five years, the percent of plans offering Roth in 401(k)’s has increased by 30%, and with this option being increasingly popular with younger participants, contributions are also on the rise.

**ADDITIONAL INSIGHTS:**

- Millennials* are the most likely generation to be contributing to Roth, increasing from 10% to 16% in the last 10 years.
- 27% of plans offer employees the ability to convert pre-tax assets to Roth, twice the number who offered this option in 2016.
Tax-exempt balances continue to grow

Tax-exempt companies, such as religious, healthcare, higher education and governmental organizations are increasing retirement savings through engagement and education.

ADDITIONAL INSIGHTS:

- Balances continue to grow along with the TEM participant base. As of Q2-2021, there are 5.4M unique participants in TEM with an average balance of $113K.
- Balances for 10-year continuously active participants grew ~3x in the previous 10 years.

***Considers only active participants with balance
Tax-exempt workers making strides

ADDITIONAL INSIGHTS⁴:

• 87% participants employed by tax-exempt organizations contribute to their retirement plan as of June 30, 2021.⁴

• Overall savings (including employee and employer contributions) continued to be stable at $9,940.

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**Average Contributions - Tax-exempt plans**

<table>
<thead>
<tr>
<th></th>
<th>Q2-2013</th>
<th>Q2-2015</th>
<th>Q2-2017</th>
<th>Q2-2019</th>
<th>Q2-2021</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$8,110</td>
<td>$8,430</td>
<td>$9,000</td>
<td>$9,460</td>
<td>$9,940</td>
</tr>
</tbody>
</table>

**Average tax-exempt plan contribution amounts**

12 months ending Q2 2021

<table>
<thead>
<tr>
<th></th>
<th>Employee</th>
<th>Employer</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$6,130</td>
<td>$3,810</td>
</tr>
</tbody>
</table>

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***Considers average employee and employer contributions for only active participants with balance
****Considers average contributions for participants contributing non-zero dollars to the plan.
IRA Trends
IRA balances

9.1 million people are saving and investing for retirement through 11.6 million IRA accounts, where the number of accounts has grown by 13.0% and average balances have increased 20.9% between Q2 2020 and Q2 2021.5

ADDITIONAL INSIGHTS5:
- IRA accounts owned by female Millennials* increased by 30.3% between Q2 2020 and Q2 2021.
IRA contributions

While not all account holders contribute to their IRA on an annual basis, the number of accounts with a contributions has increased by 55.9% between Q2 2020 YTD and Q2 2021 YTD.

ADDITIONAL INSIGHTS:

• Across the generations, Roth IRAs are the savings vehicle of choice with 59.8% of all IRA contributions going to Roth in Q2 2021 YTD.

• Contributing millennial* Roth IRA accounts increased 66.9% in Q2 2021 YTD compared with Q2 2020 YTD, with their overall dollar contributions increasing 70.9%.

Average IRA contribution amount historical

<table>
<thead>
<tr>
<th>Year</th>
<th>Average Contribution</th>
</tr>
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<tbody>
<tr>
<td>2010</td>
<td>$4,200</td>
</tr>
<tr>
<td>2012</td>
<td>$4,100</td>
</tr>
<tr>
<td>2014</td>
<td>$4,300</td>
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<tr>
<td>2016</td>
<td>$4,100</td>
</tr>
<tr>
<td>2018</td>
<td>$4,200</td>
</tr>
<tr>
<td>2020</td>
<td>$4,400</td>
</tr>
<tr>
<td>Q2 2021 YTD</td>
<td>$3,900</td>
</tr>
</tbody>
</table>
401(k)-IRA trends

Insights on those saving in both a DC retirement plan and an IRA
Combined balances

The people with balances in both a DC retirement plan and an IRA, are maximizing their savings opportunities in the pursuit of retirement readiness.

ADDITIONAL INSIGHTS:

- Average combined assets for Millennials* increased 35.1% from Q2 2020 to Q2 2021.
Contributions

Contributing to more than one retirement plan takes budgeting and dedication. Contribution rates have recovered following the financial crisis of 2008/2009 and have remained steady the last several years, hitting an average annual high of $4,700 in 2020.6
Footnotes

*Baby Boomers are those people born between 1946 and 1964.
*Gen X are those people born between 1964 and 1980.
*Millenials are those people born between 1981 and 1997.

Investing involves risk, including risk of loss.

**For “Asset Allocation” purposes, the participant’s current age and equity holdings are compared with an example table containing age based equity holding percentages based on an equity glide path. The Fidelity Equity Glide Path is an example we use for this measure and is a range of equity allocations that may be generally appropriate for many investors saving for retirement and planning to retire around ages 65 to 67. It is designed to become more conservative as participants approach retirement and beyond. The glide path begins with 90% equity holdings within a retirement portfolio at age 25 continuing down to 24% equity holdings at age 93. Equities are defined as domestic equity, international equity, company stock, and the equity portion of blended investment options. The Fidelity equity band is not intended as a benchmark for individual investors; rather, it represents a range of equity allocations that may be appropriate for many investors saving for retirement. 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.

Target Date Funds are an asset mix of stocks, bonds and other investments that automatically becomes more conservative as the fund approaches its target retirement date and beyond. Principal invested is not guaranteed.

1 Based on a quantitative online survey among 1585 Fidelity plan participants. This survey was conducted by Ipsos, an independent third-party research firm, on behalf of Fidelity in September 2020, December 2020 and May 2021.
2 Based on Fidelity analysis of 23,600 corporate DC plans (including advisor-sold DC) and 19.8 million participants as of 6/30/2021.
3 Based on Fidelity analysis of 27.1 million total DC/TEM participants as of 6/30/2021.
4 Based on Fidelity analysis of 10,354 Tax-exempt plans and 7.3 million plan participants as of 6/30/2021. Considers average balance across all active plans for 5.4M unique individuals employed in tax-exempt market.
5 Fidelity business analysis of 11.6 million IRA accounts as of June 30, 2021.
6 Fidelity business analysis of people saving in both a DC retirement plan and an IRA as of June 30, 2021.

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