Building Financial Futures

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

Fidelity continues to keep a close eye on how the Coronavirus pandemic is affecting how we live and work. Our focus remains on helping our customers make informed decisions about their money in this continually changing world.

Despite the significant swings in the stock market during the third quarter, our analysis found there were minimal changes to the average retirement account balance, with a slight increase to the average IRA balance and moderate decline in both the average 401(k) and 403(b) balances. The majority of retirement savers continued to take a long-term approach by maintaining their contribution levels to workplace savings and not making significant changes to their asset allocation.

In addition, the number of Gen Z investors across Fidelity’s retirement platform reached a record 1.4M in Q3, nearly double the number of Gen Z investors from one year ago. In our Participant Pulse we provide a snapshot of Gen Z characteristics and behaviors to help you get to know this rising segment of your workforce.

Defined Contribution plans
Individual Retirement Account
DC + IRA
Participant Pulse: Gen Z on the rise

This quarter, workers of Generation Z surpassed the 1 million mark on Fidelity’s platform.¹² What do we know about this rising generation in the workforce?

Members of Gen Z are more racially and ethnically diverse than any previous generation, and they are on track to be the most well-educated generation yet.³

Born between 1997 and 2012, Gen Z are digital natives – they can’t remember a time before Google, Amazon or Facebook and few, if any, have used a phone with a cord.⁴

An engaged population, Gen Z is active on issues like climate change and social justice, and uses online platforms to organize.⁵

Of all the generations, Gen Z (41%) is most likely to say that they turn to social media influencers to educate themselves on investing.⁶

As of Q3 2021, a record 1.4 million Gen Z workers are participating in Fidelity’s retirement platform, nearly double the number of Gen Z investors from one year ago.²

920,000 Gen Z 401(k) participants⁷
247,000 Gen Z 403(b) participants⁸
242,000 Gen Z IRA participants⁹

While it’s still early in their careers, Fidelity data indicates Gen Z is more inclined to invest in a 401(k) than Millennials were at the same age.⁷

15.8% of Gen Z workers are participating in a 401(k) and their average balance is $4,700; when Millennials were the same age, their participation rate was 11.4% and their average balance was $2,000.⁷

Gen Z workers are most frequently using Roth IRAs and Target Date Funds.

Gen Z workers with an IRA prefer Roth IRAs for their savings, with contributions to Roth IRAs making up 95% of Gen Z’s total IRA contributions in Q3.⁹

Among Gen Z workers with a 401(k) or 403(b), the majority utilize a target date fund for their savings, with 86% of Gen Z holding 100% of their savings in a target date fund.¹⁰
3 things for employers to keep in mind when engaging Gen Z workers

Gen Z worker behaviors indicate their growing interest in investing for the long-run. How do you deepen this workplace engagement to improve their financial wellness and expand their interest in other relevant benefits?

1. **Keep it simple:**
   - Gen Z workers are not only mobile-first, they’re chat-first. Consider whether the experience you’re serving up is digital, streamlined and allows for easy, two-way communication.
   - Consider auto-enrolling new hires if you don’t already. Among plans that offer auto-enrollment, 91% of participants don’t opt out. In fact, 36% of participants increase their savings rate from the default.\(^7\)
   - Consider setting the default savings rate for new hires at 6% and offer an auto increase program.

2. **Amp up education:**
   - In Fidelity’s “Meme Stock” study, more than half of Gen Z Americans said that learning about investing and getting started on their own feels overwhelming.\(^6\) Employers are in a prime position to provide the education these employees crave. After all, often a workers’ first experience with investing is through an employer sponsored retirement account.
   - Make the most of Gen Z’s willingness to learn – help them build foundational skills like creating a financial plan, saving for an emergency using a separate “rainy day” fund, and taking advantage of the company match.

3. **Offer inclusive benefits:**
   - As the most diverse generation in history, Gen Z may seek out employers who take an inclusive approach to their employees’ financial wellness. Consider that motivations and needs can differ, for example Black, Latino/a, and Asian employees are more likely to have provided financial support to extended family over the past year compared to their white peers, and Black employees are also most likely to have provided regular financial support to their communities\(^11\). At the end of the day, this means that employees are supporting the people they care about, but there may be less left over for their own financial wellness.
   - Given this generation’s bias for civic engagement and action, providing opportunities for employees to give back to their communities of choice – potentially through a workplace giving program – can be one way to support overall employee financial wellness and increase job satisfaction.
Defined Contribution Plan trends
DC plan participation continues to climb

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

ADDITIONAL INSIGHTS:

- 91% of employees who are auto enrolled don’t opt out.
- Participation rate of Gen Z in Q3 2021 was 15.8%, compared to 12.6% participating in 2019 and 2.9% in 2016.

Average participation rates in DC plans

Average participation rates AE plans v. non-AE plans

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 INSIGHTS:²

• 7.3% of participants contributing to their 401(k) plan decreased their deferrals during Q3 2021, down from 9.4% the year before and 6.9% in Q2 2021.

• 65% of deferral increases were due to Auto Increase Programs in Q3 2021.
DC plan balance

With the recent market activity, balances have decreased by -2.5% from the previous quarter.

ADDITIONAL INSIGHTS:

• Though average balances dipped slightly this quarter, those who have been saving over the long-term (15 years) have saved an average of $505,353.

• While still early in their careers, for Gen Z participants who have continuously invested in their DC plan for 5 years, the average balance is $23.9K; this compares to $267K for all 5-year continuous participants.
Investment diversification improves over time

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

ADDITIONAL INSIGHTS:  
- Baby Boomers* are the most likely generation to be too aggressively invested.  
- 51% of Gen X* are 100% invested in a target date fund.  
- 70% of Millennials* are 100% invested in a target date fund and 85% of Gen Z* are 100% invested in a target date fund, due in part to being auto-enrolled in their 401(k) and defaulted into the option.

![Percent of employees holding 100% or 0% equity](chart)

![Percent of employees with a stock allocation higher than suggested](chart)
Trends in workplace managed accounts

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

ADDITIONAL INSIGHTS:7

- While plan sponsor adoption of managed accounts has grown, participant adoption is still relatively low.
- 51% 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

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**Large Employer - average number of investment options offered**

As of Q3 in the year noted

<table>
<thead>
<tr>
<th>Year</th>
<th>Options Offered</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>25.1</td>
</tr>
<tr>
<td>2012</td>
<td>19.8</td>
</tr>
<tr>
<td>2013</td>
<td>17.8</td>
</tr>
<tr>
<td>2014</td>
<td>17.6</td>
</tr>
<tr>
<td>2015</td>
<td>16.9</td>
</tr>
<tr>
<td>2016</td>
<td>16.8</td>
</tr>
<tr>
<td>2017</td>
<td>16.4</td>
</tr>
<tr>
<td>2018</td>
<td>16.1</td>
</tr>
<tr>
<td>2019</td>
<td>16.0</td>
</tr>
<tr>
<td>2020</td>
<td>15.4</td>
</tr>
<tr>
<td>2021</td>
<td>15.4</td>
</tr>
</tbody>
</table>

²Large plans are those with approximately $500M or more in DC plan assets.
Roth 401(k)

In just the last five years, the percent of plans offering Roth in 401(k)'s has increased by 29%, and with this option being increasingly popular with younger participants, contributions are also on the rise.\(^7\)

**ADDITIONAL INSIGHTS:**\(^7\)

- Gen Z* are the most likely generation to be contributing to Roth, increasing from 12% to 14% compared to Q3 2020.
- 28% of plans offer employees the ability to convert pre-tax assets to Roth, twice the number who offered this option in 2016.
Loans and withdrawals continue to increase
With the observed reduction in activity immediately after the Cares Act provisions ended in Q4 2020, newly initiated 401(k) loans and withdrawals in Q3 2021 continued to increase from Q1 2021 levels.

ADDITIONAL INSIGHTS:

• 2.3% of 401(k) savers initiated a new loan in the third quarter, an increase from the Q2 2021 rate of 2.2% and the Q3 2020 rate of 1.9%.

• The percentage of workers who made a withdrawal from their 401(k), including hardship withdrawals, increased to 3.2% from 3.0% in Q2 and 2.4% in Q1, yet remains lower than the 5.6% rate one year ago.

• The average hardship distribution amount in Q3 was $3,600 and the median amount was $1,100.
Outstanding loans and average loan amounts down

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

ADDITIONAL INSIGHTS:

- Despite recent increases in Q3 2021 newly initiated loans, the percentage of workers with an outstanding 401(k) loan dropped from 20.3% in Q2 2019 to 17.3% in Q2 2021 as the long-term trend of decreasing loan usage continues.
- The average amount for loans initiated in Q3 2021 was $10,318 down slightly from $11,019 in Q2 2021 and $11,912 in Q1 2021.
Tax-exempt balances continue to grow

- Balances continue to grow along with the participant base of tax-exempt employers. As of Q3 2021, there are 5.5M unique participants in this segment with an average balance of $111K.8

- Gen Z is rapidly entering the workforce and now comprise 5% of all tax-exempt active plan participants with a balance. To date, they are generally following the default plan design, with average deferral elections of 5% and 9 in 10 being 100% invested in a target date fund.8

*Considers only active participants with balance
IRA Trends
IRA balances

9.3 million people are saving and investing for retirement through 11.8 million IRA accounts, where the number of accounts has grown by 12.8% and average balances have increased 15.2% between Q3 2020 and Q3 2021.⁹

**ADDITIONAL INSIGHTS:**⁹

- IRA accounts owned by female Millennials* increased by 31.3% between Q3 2020 and Q3 2021.
- Average combined IRA assets for Gen Z accounts increased 28.8% from Q3 2020 to Q3 2021.

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**Historical IRA average balances**⁹

<table>
<thead>
<tr>
<th>Year</th>
<th>Average Balances</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>$71,300</td>
</tr>
<tr>
<td>2012</td>
<td>$76,700</td>
</tr>
<tr>
<td>2014</td>
<td>$92,400</td>
</tr>
<tr>
<td>2016</td>
<td>$94,200</td>
</tr>
<tr>
<td>2018</td>
<td>$99,100</td>
</tr>
<tr>
<td>2020</td>
<td>$128,100</td>
</tr>
<tr>
<td>Q3 2021</td>
<td>$135,700</td>
</tr>
</tbody>
</table>

Annual Data
IRA contributions

While not all account holders contribute to their IRA on an annual basis, the number of accounts with a contribution has increased by 45% between Q3 2020 YTD and Q3 2021 YTD.  

ADDITIONAL INSIGHTS:

• Across generations, Roth IRAs are the retail retirement savings vehicle of choice, with 61.2% of all IRA contributions going to Roth in Q3 2021 YTD.

• Millennial* Roth IRA accounts increased 58.5% in Q3 2021 YTD compared to Q3 2020 YTD, with overall dollar contributions increasing 58.1%.

• Gen Z worker contributions to Roth IRAs made up 95% of Gen Z’s total IRA contributions in Q3.
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:¹²

• Average combined assets for Millennials* increased 23.5% from Q3 2020 to Q3 2021.

Combined average balances for savers with both a workplace retirement plan and an IRA¹²

<table>
<thead>
<tr>
<th>Year</th>
<th>Average Balances</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>$194,900</td>
</tr>
<tr>
<td>2014</td>
<td>$256,800</td>
</tr>
<tr>
<td>2016</td>
<td>$275,600</td>
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<tr>
<td>2018</td>
<td>$281,000</td>
</tr>
<tr>
<td>2020</td>
<td>$369,000</td>
</tr>
<tr>
<td>Q3 2021</td>
<td>$382,800</td>
</tr>
</tbody>
</table>
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 2020.¹²
Footnotes

*Baby Boomers are those people born between 1946 and 1964.
*Gen X are those people born between 1964 and 1980.
*Millennials are those people born between 1981 and 1996.
*Gen Z are those people born between 1997 and 2012.

Past performance is no guarantee of future results.
Investing involves risk, including risk of loss.
Diversification and asset allocation do not ensure a profit or guarantee against 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 19% 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

"Fidelity Managed Accounts” or “Fidelity managed accounts” refer to the discretionary investment management services provided through Fidelity Personal and Workplace Advisors LLC (FPWA), a registered investment adviser. These services are provided for a fee. Brokerage services provided by Fidelity Brokerage Services LLC (FBS), and custodial and related services provided by National Financial Services LLC (NFS), each a member NYSE and SIPC. FPWA, FBS, and NFS are Fidelity Investments companies.

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. Gen Z, as defined by Pew Research, as individuals born between 1997-2012.
2. Based on Fidelity analysis of 27.6 million total DC/TEM participants and 11.8 million IRA accounts as of 9/30/2021.
3. Pew Research Institute, ‘Post-Millennial’ Generation On Track To Be Most Diverse, Best-Educated | Pew Research Center
4. Pew Research Institute, On the Cusp of Adulthood and Facing an Uncertain Future: What We Know About Gen Z So Far
5. Brookings, Now, more than half of Americans are millennials or younger
6. Fidelity's “Meme Stocks” survey, an online CARAVAN omnibus survey was conducted by ENGINE INSIGHTS among a U.S. sample of 2,004 adults who are Gen Z (18-24), millennials (25-40), and Gen X (41-56). Fielding was April 2-7, 2021. Fidelity and ENGINE INSIGHTS are not affiliated.
7. Based on Fidelity analysis of 23,700 corporate DC plans (including advisor-sold DC) and 20.2 million participants as of 9/30/2021.
8. Based on Fidelity analysis of 10,316 Tax-exempt plans and 7.4 million plan participants as of 9/30/2021. Considers average balance across all active plans for 5.4M unique individuals employed in tax-exempt market.
10. Based on Fidelity analysis of 27.6 million total DC/TEM participants as of 9/30/2021.
11. Fidelity Investments 2020 Financial Experiences Research online survey of 591 FMR LLC employees. Of these, 48 employees identified as Black, 50 identified as Latino/a, and 407 identified as white. The remainder identified as another race or multiracial or did not indicate their race.
12. Fidelity business analysis of people saving in both a DC retirement plan and an IRA as of September 30, 2021.

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