VISION 2020

DESIGN FOR INCOME

A Framework to Help You Build a Stronger Plan

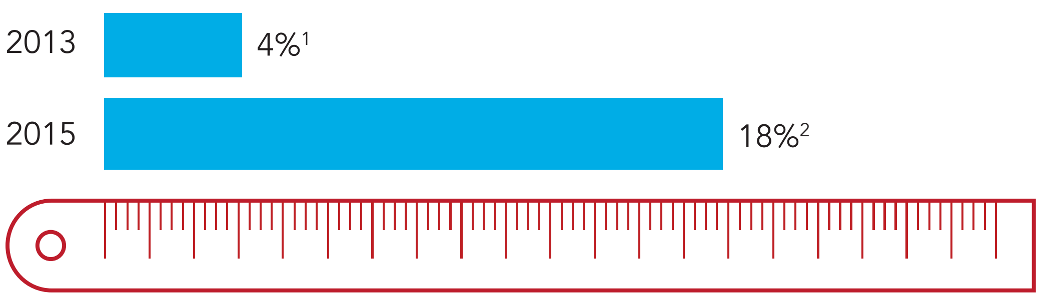
Fidelity INVESTMENTS

Why plan design is critical

When building a house, having a framework to guide you is crucial to success. It's not that different from designing a defined contribution plan. In both cases, your plan should detail the outcome you're looking for — and how you expect to achieve it.

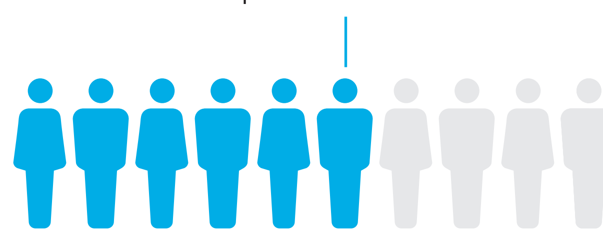
Plan sponsors are starting to design their DC plans with a targeted income replacement rate in mind, in part because these plans play a primary role in helping employees prepare for retirement, and many are not on track.

The percentage of employers designing DC plans with a specific income target in mind:



60% of workers will rely on the DC plan as their primary source of retirement savings.[3]

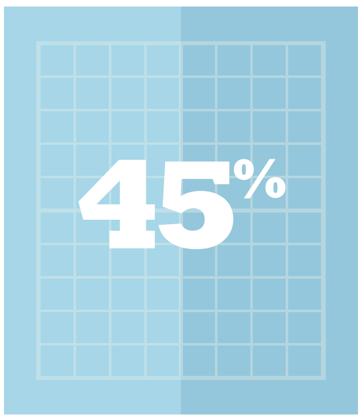
55% are not on track to cover their expenses in retirement.[4]



Setting goals for a stronger plan

In order to maintain their lifestyle in retirement, we believe most people will need to replace at least 45% of their income using their workplace and personal savings, in addition to Social Security benefits. To help employees reach this goal by age 67, we suggest getting them on a path to save at least 15% of their income annually (including employer contributions) over the course of their careers. What goals should you set for your plan? We suggest two metrics plan sponsors can consider, and one for participants.

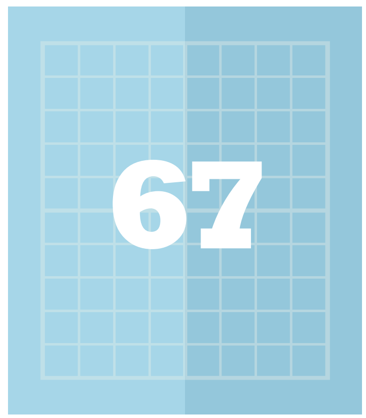
PLAN SPONSOR



INCOME REPLACEMENT RATE
The percentage of income generated from retirement savings.

Goal: We believe 45% or more is a reasonable target to maintain a pre-retirement lifestyle throughout retirement.

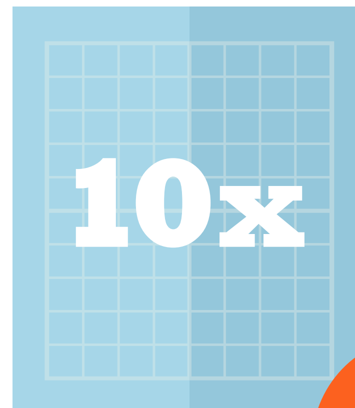
PLAN SPONSOR



FINANCIAL READINESS AGE
The anticipated age at which we believe employees could reach at least a 45% income replacement rate based on saving 15% annually over their entire career.

Goal: Age 67

PARTICIPANT



SAVINGS FACTOR
A general rule of thumb participants can use to determine if they are on track to be retirement ready at age 67 and have an income replacement rate of at least 45%.

Goal: We suggest saving at least 10 times (X) ending salary.

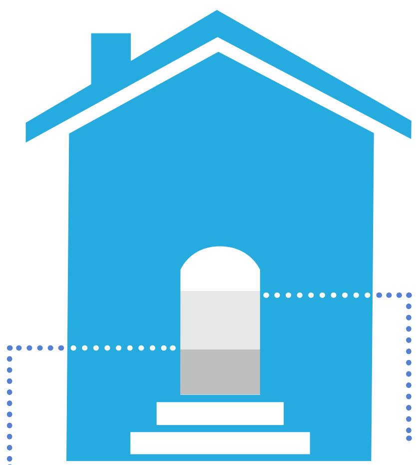
Click here to download participant infographic

Please see the Glossary on page 10 for important definitions of the terms used on this page.

Help participants succeed

While many participants are on the right track, there are still many who need help. Implementing plan design guardrails can help participants in these key areas:

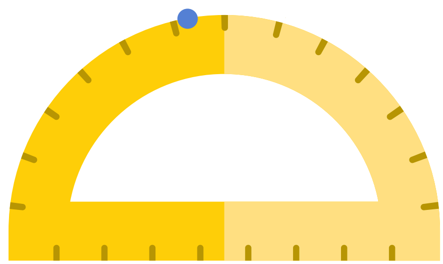
PARTICIPATION & SAVINGS



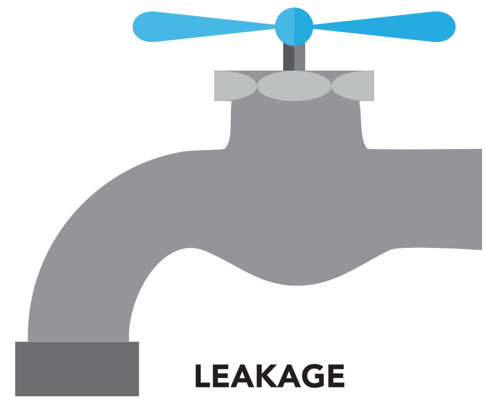
30%
do not participate[5]

70%
save less than 15% of pay, including employer contributions[5]

ASSET ALLOCATION



47%
may not have their portfolio age-appropriately allocated[6]



LEAKAGE

22%
have a loan outstanding[5]

22%
cash out within 5 years of leaving a job[7]

Getting — and staying — on track ...

One of the most effective ways to improve outcomes is using auto solutions to get employees enrolled and saving more.

Auto Enroll

Increases participation by automatically enrolling employees unless they opt out.

Participation rates are higher in plans with Auto Enroll (AE)[5]

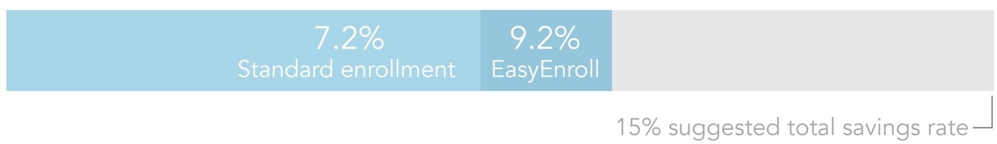
Even for sponsors who have an AE default of 5% or higher, participants tend to stay in the plan when auto enrolled[5]

21% of plans auto enroll at 5% deferral or higher[5]

EasyEnroll

Drives higher starting deferrals through a simplified two-click enrollment experience.

EasyEnroll drives employee deferrals 28% higher than standard enrollment[8]

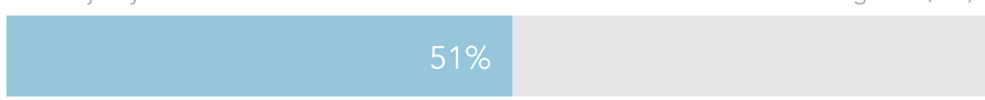


97% of plans use Fidelity's suggested 8-10-12% deferral package[8]

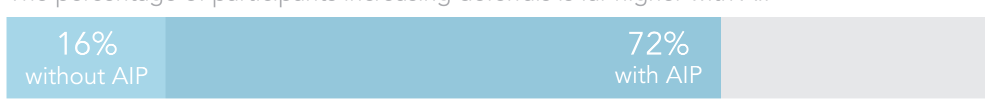
Annual Increase

Accelerates participants' savings by automatically increasing deferrals 1% each year.

The majority of deferral increases for millennials are due to Annual Increase Programs (AIP)[5]



The percentage of participants increasing deferrals is far higher with AIP[9]



Use Annual Increase with both enrollment methods to help participants save more.

… can help turn inertia into an asset

Designing a plan using auto solutions is an effective way to set your participants on a path to reach a targeted financial readiness age and income replacement rate. See how three hypothetical plan design scenarios using auto solutions could lead to different outcomes for your participants.

	SCENARIO 1	SCENARIO 2	SCENARIO 3
THE DESIGN			
Auto Enroll default + match	4%	6%	10%
Auto annual increase	1%	1%	1%
Target total savings rate	12%	18%	22%
THE TARGETS			
Income replacement rate	40%	45%	50%
Financial readiness age	70	67	65

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

If an employee's deferral rate remained at 6%, rather than increasing at 1% annually, this plan design would replace just **19% of income at retirement rather than 45%.**

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

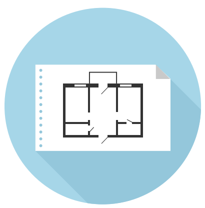
Please see the Glossary on page 10 for important definitions of the terms used on this page.

Giving employees the options they need

With the right tools in place to drive participation and savings, the next key element of your blueprint is a range of investment options that meet the needs of all your employees. Here's what a complete spectrum of options could include:

DO IT FOR ME OPTIONS

Target date funds, asset allocation funds, and managed accounts could be the first options considered when designing your plan's lineup of investment options.



LIMITED CORE LINEUP

Include a small but diverse lineup of core fund options for participants who prefer to create their own asset allocation strategy. Core options should cover a range of asset classes, including fixed income, domestic equity, international equity, and specialty/inflation.

EXPANDED CHOICE

A plan sponsor may opt to offer additional investment choices or a self-directed brokerage account for participants who want to invest outside of the plan's core lineup.

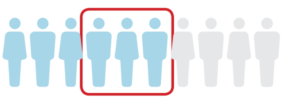
Supporting a range of investors

Your plan design should include a range of investment options because there is such a wide range of engagement, expertise, and confidence among employees when it comes to investing.

PARTICIPANT TRENDS

8 in 10

participants say they don't have the skill, will, and time to manage their own investments,[10] and yet ...



6 in 10

participants are do-it-yourself (DIY) investors, but half of them haven't made an exchange or mix change or sought guidance in more than two years.[11]

PLAN SPONSOR TRENDS[5]

15%

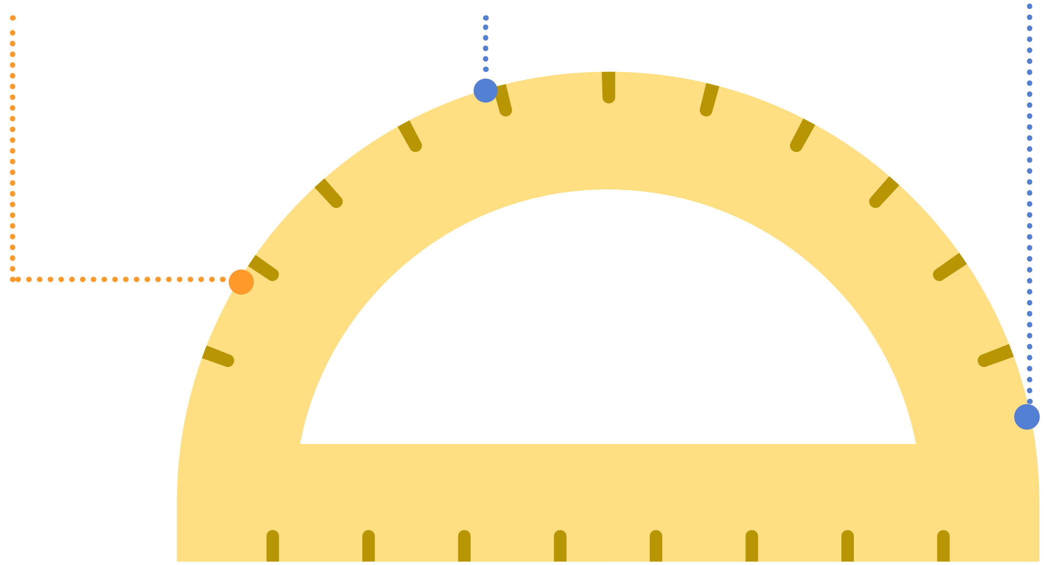
of plans utilize Self-Directed Brokerage, an option that allows do-it-yourself investors the broadest range of investment choices.

41%

of plans include managed accounts, which offer professional portfolio management based on a participant's age, financial situation, and risk tolerance.

98%

of plans include target date funds, which offer a portfolio designed around a specified retirement date.



How to minimize leakage

Leaks can cause a lot of damage to your employees' retirement savings, but you can try to minimize the impact. Plan design ideas to consider:

40%

reduce deferrals or stop saving altogether after taking out a loan, which can have a larger negative impact than the loan itself.[13]

THE POTENTIAL IMPACT

Reducing or stopping saving could cost a participant $180-$690 a month in retirement.[14]

LOANS

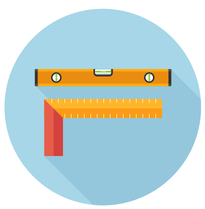
- Allow participants to have only one loan outstanding at any time. Today, 71% of plans allow only one outstanding loan at a time.[12]
- Implement a waiting period between loans to reduce serial borrowing.
- Allow participants to borrow only their own money, not employer money.

HARDSHIP WITHDRAWALS

- If you choose to offer hardship withdrawals, we recommend you consider allowing safe harbor hardship withdrawals and automatic suspension reinstatement.

What you can do

DESIGN YOUR PLAN WITH A TARGET IN MIND
Using guideposts such as income replacement rate and financial readiness age, determine the potential outcome you want your plan to achieve. Then, consider what outcome your plan is currently designed to deliver. Does it align with your goals? If not, consider implementing plan design strategies such as auto enrollment, annual increase, and target date funds and/or managed accounts to help achieve your goals. Use this information to start a conversation within your organization about plan design adjustments.



IDENTIFY WHERE YOUR PARTICIPANTS NEED HELP
Work with Executive Insights to analyze your plan and participant data to determine where participants may be off-track. Look at elements such as plan participation, savings rates, asset allocation, and loan usage to identify where participants need help. Take advantage of campaigns that are offered, and encourage participants to seek help.

EDUCATE YOUR EMPLOYEES

Download and share participant content to help educate your employees. Encourage them to take advantage of online tools and workshops and to download the NetBenefits app so they can get help on the go.

CALL US

Talk to your Fidelity representative, who can help you build a strategy to design your plan with a targeted outcome in mind.

Glossary of important concepts

INCOME REPLACEMENT RATE

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

FINANCIAL READINESS AGE

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

SAVINGS FACTOR

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

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

All investing involves risk, including the risk of loss.

[1] Fidelity Investments online survey of 500+ employers; March 2013.

[2] Fidelity Investments online survey of 500+ employers; April 2015.

[3] Participants in an Employment-Based Retirement Plan: Employee Benefit Research Institute, as of 2011.

[4] Fidelity Investments Retirement Savings Assessment, 2013.

[5] Based on Fidelity analysis of 21,200 corporate DC plans (including advisor-sold DC) and 13.5 million participants as of 6/30/2015.

[6] Based on Fidelity analysis of 21,200 corporate DC plans (including advisor-sold DC) and 13.5 million participants as of 6/30/2015. For "not age appropriately allocated" 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 as of 12/31/13 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 option of blended investment options. The indicator for asset allocation is determined by being within 10% (+ or -) of the Fidelity Equity Glide Path and capped at 95% equity. We assume self-directed account balances (if any) are allocated 75% to equities, regardless of participant age, and so this indicator has limited applicability for those affected participants. For purposes of this metric, participants enrolled in a managed account are considered to be age appropriately allocated. Diversification and/or asset allocation do not ensure a profit or protect against loss.

[7] Based on analysis of 2.9 million participants who terminated between 1/1/2010 and 12/31/2014, of whom 637,000 took a full distribution following termination. Excludes participants over age 59.5; those with balances under $5,000 that may be subject to deminimus distribution; and those who may have reinvested the funds in a qualified account after distribution.

[8] Based on Fidelity internal reporting data. Average starting deferral rates of 7.2% and 9.2% are based on Q1, 2015 results. EasyEnroll average is for those who elect the preset packages offered by the employer (for plans offering 8%, 10%, and 12% choices), and the standard enroll data reflects the people in those plans who choose their own amount and don't go with the preset packages. Average deferral rates are employee contributions only.

[9] Based on Fidelity analysis of 21,200 corporate DC plans (including advisor-sold DC) and 13.5 million participants as of 6/30/2015. Specifically focused on the population of 12-month continuous participants, who had a deferral increase in the prior 12-months.

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

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

[12] Based on Fidelity analysis of 21,200 corporate DC plans (including advisor-sold DC) and 13.5 million participants as of 12/31/2014. Of our largest plan sponsors (those with >$500 million in plan assets), 54% offer one or two loans outstanding at a time.

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

[14] Hypothetical example compares retirement income for three employees: one who maintained 401(k) savings rate, one who decreased savings rate to 5% for 5 years, and one who decreased savings rate to zero for 10 years. The example uses the following assumptions about each person: Starts with $50,000 salary at age 25, which grows at a 1.5% real annual rate; contributes 6% of pay and receives 4% employer matching contribution; savings grow at a 3.2% real rate of return. Person 1 maintains savings at the same rates stated previously. Person 2 decreases total savings rate by 5% for a 5-year period beginning at age 35, then resumes saving at the original 6% and 4% employee and employer rates. Person 3 decreases savings rate to zero for a 10-year period beginning at age 35. Consequently, based on the previously noted assumptions, persons 2 and 3 experience a decrease in monthly income in retirement of $180 and $690 respectively. Upon retirement at age 67, both individuals draw down their accounts through age 93; all amounts are pretax, and are expressed in 2014 real dollars. Upon distribution, applicable federal, state, and local taxes may be due. No federal, state, or local taxes, or any account fees or expenses were considered. If they were, results may be lower. For purposes of this illustration, lost earnings associated with any outstanding loan balance or balance increase due to loan repayments were not accounted for.

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Approved for use in the advisor and 401(k) markets. Firm review may apply.

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