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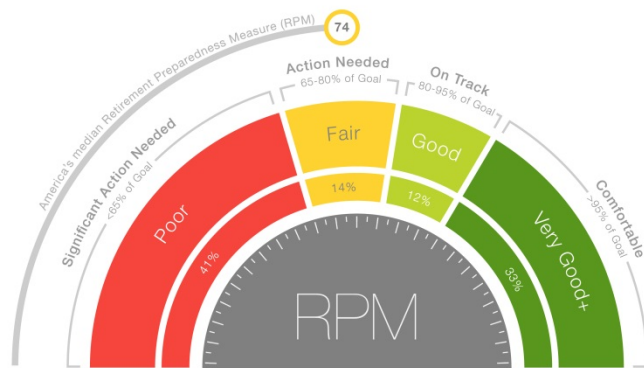


## 2013 Retirement Savings Assessment Executive Summary

The Retirement Savings Assessment™ (RSA) provides actionable and quantifiable steps to consider across different generations (Baby Boomers born 1946–1964, Gen X born 1965–1977 and Gen Y born 1978–1988) that can help close their potential retirement income gaps. The research estimates the percentage of estimated retirement expenses that can be funded with projected retirement assets and income sources.

New this year is Fidelity's Retirement Preparedness Measure (RPM), which uses a single score to estimate whether Americans are on track to meet their post-retirement total expense needs. The categories are linked to a numeric range (the higher the better), based on an individual's ability to cover total estimated retirement expenses, even in a down market<sup>1</sup>:

- **Dark Green: Very Good or Better (95 or over).** These households are on track to cover 95% or more of total estimated expenses, even in a down market. **33 percent of those surveyed were dark green.**
- **Green: Good (80-95).** On track to cover at least essential expenses, but not discretionary expenses like travel, entertainment, etc<sup>2</sup>. **12% of those surveyed were green.**
- **Yellow: Fair (65-80).** Not on track to sufficiently cover all essential retirement expenses, with modest adjustments to their planned lifestyle likely. **14% of those surveyed were yellow.**
- **Red: Poor (less than 65).** Not on track to sufficiently cover all essential retirement expenses, with significant adjustments to their planned lifestyle likely. **Forty-one percent of those surveyed were red.**



### Retirement Preparedness Measure

According to Fidelity Investments®, more than half of American households are projected to face a shortfall covering essential expenses in retirement

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SOURCE: The Retirement Preparedness Measure is derived from the results of the 2013 Retirement Savings Assessment, a national online survey of 2,265 working households conducted from June through October by GfK Public Affairs. Enhanced modeling was then provided by Fidelity's Strategic Advisers.

## **MORE THAN ONE-HALF OF AMERICANS ARE AT RISK OF NOT COVERING ESSENTIAL EXPENSES IN RETIREMENT**

According to the RPM, based on Fidelity's estimate of the retirement income goals of the survey respondents, many Americans are likely to fall significantly short of meeting their retirement income goals, unless they act. In fact, the median score indicates the "typical" American household is on pace to replace just 74% of their estimated retirement expense goal and faces a 26% income gap,

What's more, households headed by the younger generation are in notably worse condition.

- Nearly two-thirds (62%) of Gen Y and 58% of Gen X are in poor to fair condition.
- This compares to just fewer than one-half (48%) of Boomers who are in the poor to fair category.

## **SIX ACTION STEPS TO ACCELERATE RETIREMENT READINESS**

Fidelity has identified six actions that if undertaken can improve retirement readiness. Not all steps will be appropriate for everyone, but each one has its role. And while the impact of any of the accelerators (individually or in combination) may vary significantly by life stage, multiple steps may be put into use at the same time.

In fact, when all six are employed, the RPM jumps 42% from 74 to 105, moving the median RPM squarely into dark green, meaning many more working Americans would be in a financial position to afford their desired retirement lifestyle.

### **ACCELERATOR ONE: INCREASE SAVINGS**

According to the RSA, the typical working American household reports putting about 7% of their total income toward retirement savings this year, including any matching funds from an employer. The chief deterrents to saving more are the basics: housing (cited by 66% as a barrier), food and other living expenses (54%).

- Paying off debt (33%) and health care costs (30%) are other big obstacles.
- Life stage plays a role too, of course. Thirty percent of Gen X say saving for their children's college is a barrier, while 29% of Gen Y cite their own college debt.

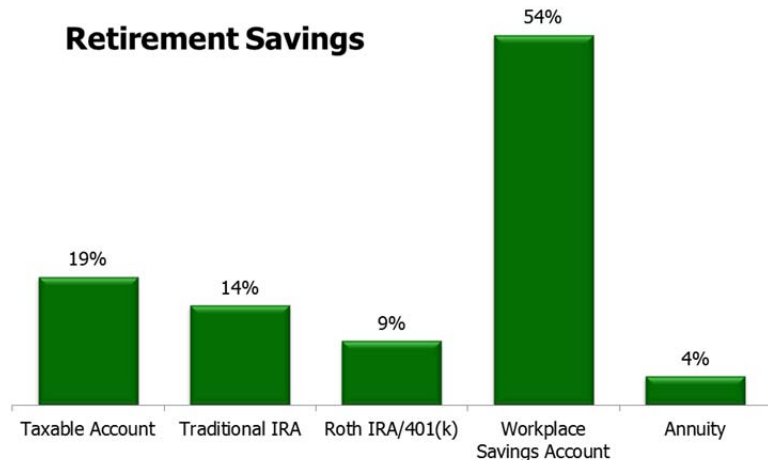
Regardless of the reason for not saving more, even making a small increase can make a big difference. **Adjusting the overall savings rate to at least a 15% savings level increases the median RPM score of 74 by 11% – to 82.**

An automatic increase program is an excellent opportunity to increase savings each year with no further action on the part of the participant. Twenty-eight percent of households claim to be enrolled in an automatic increase program through their employer sponsored retirement savings plan.

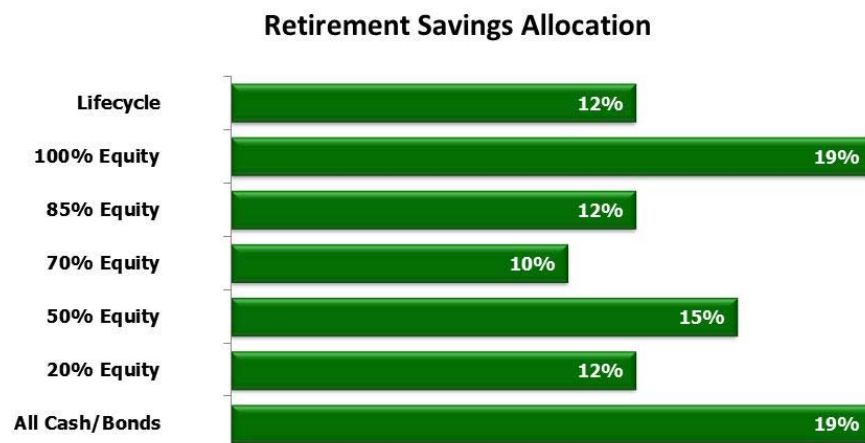
## Where American Households Hold Their Retirement Savings

More than one-half of the typical household's retirement savings are reported to be in a tax-advantaged defined contribution workplace account such as a 401(k). Nearly one-fifth is held in a taxable account while the remainder is spread among other tax-advantaged accounts outside of the workplace.

- 16% report being enrolled in a high deductible health plan through their employer, which gives workers access to a Health Savings Account (HSA), but only 71% of those same households indicate they have a balance in an HSA.
- The median HSA balance is \$1,000 and 64% of those who contribute say they spend all or most of that money during the year. Just 12% indicate that they save the full amount of their contribution and do not draw down the balance.



## Accelerator Two: Review Asset Allocation



Respondents were asked to estimate the investment mix of their retirement savings. Currently 41% say they have more than half of their savings invested in equities. About one-fifth hold all assets in cash or bonds and just over one-in-ten are invested in 'lifecycle' or target date funds.

Investing too conservatively may fail to secure the growth needed to reach retirement goals. **By replacing portfolios that are either too conservative or too aggressive with an age appropriate allocation, the median RPM score of 74 increases by 4% to 77.**

### Accelerator Three: Delay Retirement

The typical working American in the study plans to retire at an average age of 65 and expects to start receiving a Social Security retirement benefit immediately, although close to one-fifth (18%) plan to start before 65.

The longer one can wait, the more time there is to build savings. Also, waiting until age 70 to take Social Security may help maximize the lifetime benefit. Thirteen percent of respondents say they will wait until turning 70, which is like receiving a 30% increase in Social Security income compared to starting at full retirement benefit age.

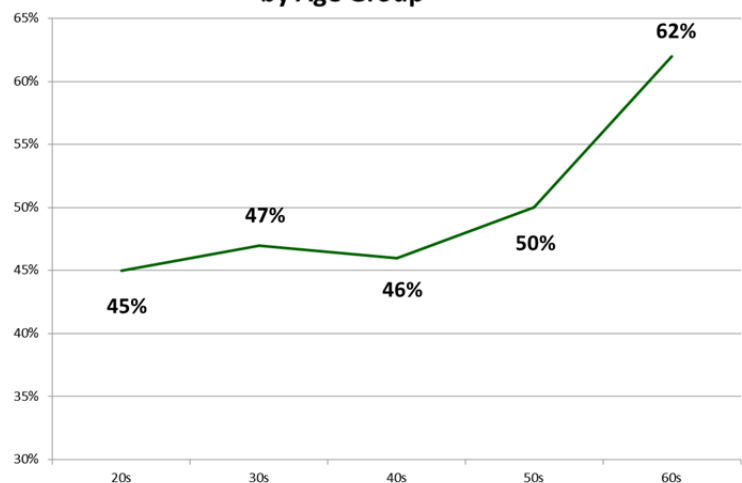
**By adjusting the reported expected retirement age to secure the full Social Security retirement benefit (between age 65 and 67) the median RPM score of 74 increases by 12% to 83.**

### Accelerator Four: Work in Retirement

Working part-time can boost income and help you stay active and involved. According to the survey, 50% of households plan to have at least one person working in retirement and another 25% are unsure of their plans.

- On average, these individuals expect to work an additional five years and bring home a median income of \$1,000 per month.
- Notably, the older one gets, the more likely they are to say they expect to work in retirement. So while fewer than one-half of respondents in their 20s and 30s say they plan to work during retirement, 62% of those in their 60s say they will.
- Notably, 80% of those surveyed are expecting to lead an active retirement lifestyle that includes travel, lifetime learning and volunteering. So, part-time work could fit into that mix nicely.
- Plus the extra income may well come in handy: 68% of people surveyed are not expecting any inheritance at all.

**Percent Expecting to Work in Retirement by Age Group**



**By factoring in between one to five years of retirement work income for all households, the median RPM score of 74 increases by 7% to 79.**

## Accelerator Five: Realize Home Equity

About three-quarters of survey respondents own a home, and the average reported value is over \$250,000. While most (52%) don't currently expect to tap their home equity as a financial safety net in retirement, 35% are uncertain and 14% say they definitely or probably will.

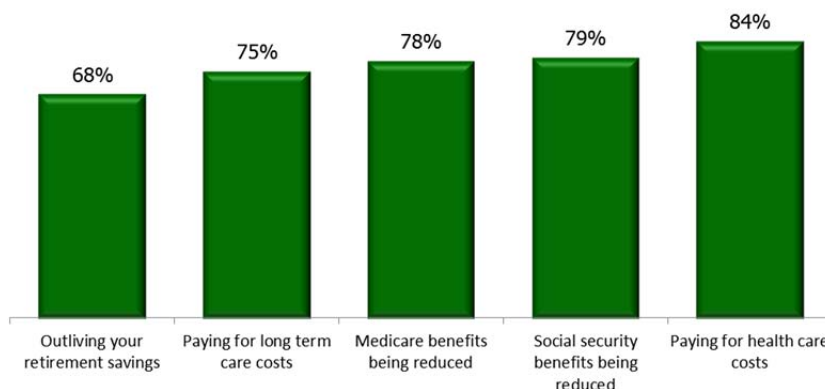
Downsizing and reinvesting all of the proceeds from a home can provide equity that might not have been considered. **By factoring in the possibility that all respondents will downsize and convert 25% of their estimated home equity into investible assets for retirement, the median RPM score of 74 increases by 4% to 77.**

## Accelerator Six: Annuitize a Portion of Savings

With nearly 70% of workers concerned about outliving retirement savings and almost 80% worried about potential reductions in Social Security benefits, another guaranteed income source (such as an annuity) in the mix could be a welcome addition. In fact, some respondents have already taken that step: 22% of those in their 60s report having a tax deferred annuity.

This steady stream of additional income can help ensure at least essential expenses are covered throughout retirement with lifetime income sources. **By investing 40% of retirement savings in a fixed lifetime income annuity<sup>3</sup>, the median RPM score of 74 increases by 5% to 78.**

**Retirement Concerns**



### *Starting to Think About Retirement Income*

Finally, it is important to simply start thinking about how much will be needed to live on during retirement. Survey respondents believe that they themselves should be responsible for providing about one half of their own retirement income, with the rest coming equally from their employer and the government.

Despite this belief, nearly four-in-ten respondents have not thought about it at all. While that may not seem like a big deal for the younger generations, that includes 29% of Boomers who say they have yet to consider it.

## **About the Fidelity Investments® Retirement Savings Assessment**

The findings in this study are the culmination of a year-long research project with Strategic Advisers, Inc. – a registered investment adviser and a Fidelity Investments company – that analyzed the overall retirement preparedness of American households based on data such as workplace and individual savings accounts, annuities, projected Social Security benefits, home equity and pension benefits. The analysis for working Americans projects the income replacement rate for the average household, compared to preretirement income, and models the estimated effect of specific steps to help improve preparedness based on the anticipated length of retirement.

Data for the Fidelity Investments Retirement Savings Assessment (RSA) were collected through a national online survey of 2,265 working households earning at least \$20,000 annually with respondents aged 25 and older from June through October. Data collection was completed by GfK Public Affairs and Corporate Communication using GfK's KnowledgePanel®, a nationally-representative online panel. Fidelity Investments was not identified as the survey sponsor. GfK Public Affairs and Corporate Communication is an independent research firm not affiliated with Fidelity Investments.

The RSA calculations rely on the proprietary asset-liability modeling engine of Strategic Advisers, Inc., which has been providing asset allocation, retirement and tax-sensitive investment management services to Fidelity's individual and institutional clients for nearly two decades. Using its modeling engine, Strategic Advisers generates the percentage of potential pre-retirement net income that each individual American household surveyed is likely to replace upon retirement. The RSA represents the median (or midpoint) for accumulator households and income and age cohorts.

This analysis is for educational purposes and does not reflect actual investment results. An investor's actual account balance and ability to withdraw assets during retirement at any point in the future will be determined by the contributions that have been made, any plan or account activity, and any investment gains or losses that may occur.

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The experience of the respondents who responded to the 2013 Fidelity Investments Retirement Savings Assessment may not be representative of the experiences of all investors.



## About Fidelity Investments

Fidelity Investments is one of the world's largest providers of financial services, with assets under administration of \$4.5 trillion, including managed assets of \$1.9 trillion, as of October 31, 2013. Founded in 1946, the firm is a leading provider of investment management, retirement planning, portfolio guidance, brokerage, benefits outsourcing and many other financial products and services to more than 20 million individuals and institutions, as well as through 5,000 financial intermediary firms. For more information about Fidelity Investments, visit [www.fidelity.com](http://www.fidelity.com).

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**Fidelity Brokerage Services LLC, Member NYSE, SIPC**  
900 Salem Street, Smithfield, RI 02917

**Fidelity Investments Institutional Services Company, Inc.**  
500 Salem Street, Smithfield, RI 02917

**National Financial Services LLC, Member NYSE, SIPC**  
200 Seaport Boulevard, Boston, MA 02110

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<sup>1</sup> Fidelity uses a down market for planning projections based on Monte Carlo simulations and its asset liability model. Down market indicates that in 10% of market simulations the market would be worse, and in 90% of simulations the market would perform better. Using down markets as a planning measure leads to conservative results. Using a lower confidence level would improve results, but increase the risk that investors would fall short of projections.

<sup>2</sup> Please note: the survey assumes that 80% of estimated retirement expenses are essential.

<sup>3</sup> The annuitize option assumes 40% of the individual's investable assets are invested in a single life fixed income annuity with an annual 2% cost of living adjustment and a 10-year guarantee period. Age at annuitization is assumed to be 67 for generations X and Y and 66 for boomer. Results are based on best available male rates as of August 2013 from lifetime fixed income annuities available through Fidelity Insurance Agency, Inc. and issued by third party insurance companies. A guarantee period provides annuity income through a specified date even if no annuitant lives to the end of the guarantee period. **Guarantees are subject to the claims-paying ability of the issuing insurance company.**