
Employee Benefit Research Institute

Policy Forum

December 5, 2002

Dan Holmes, Fidelity Investments®

***Will Today's Workers Retire With Adequate Income?
And, How Are Today's Retirees Surviving From A
Financial Perspective?***

***Discussion of Results of Oregon, Kansas and
Massachusetts Studies***

Fidelity Investments®

- **Fidelity Employer Services Company:**

- Fidelity Employer Services Company provides retirement, human resources and other employee benefits solutions to more than 12 million American workers by providing administrative services for about 11,700 retirement, pension, health and welfare, human resources administration, and payroll programs.

The State of the States

- **Oregon**
- **Kansas**
- **Massachusetts**

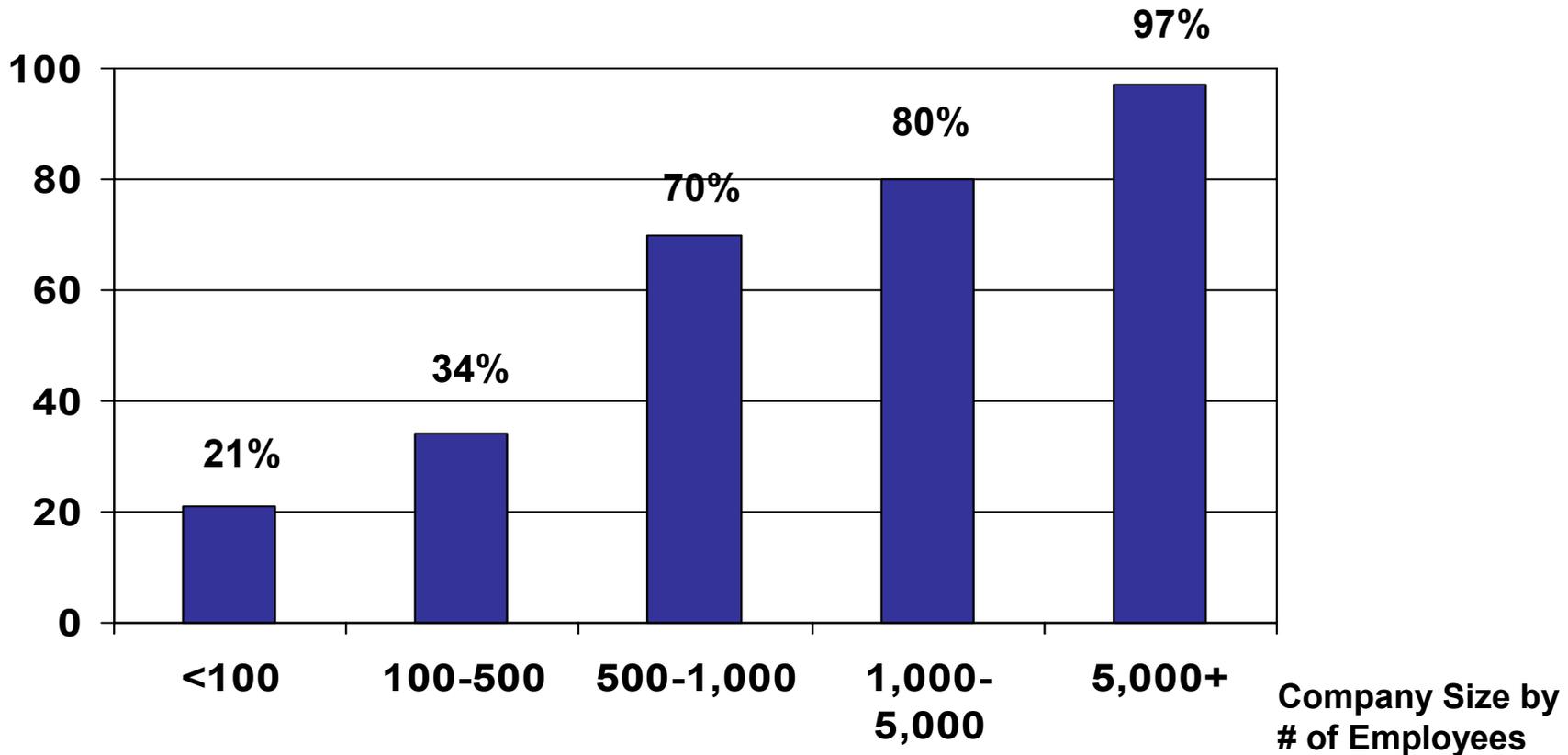
Defined Contribution Retirement Savings

Building Futures: Volume III
A Report on Corporate Defined Contribution Plans
<http://buildingfutures.fidelity.com>

Corporations Have Embraced 401(k) Plans

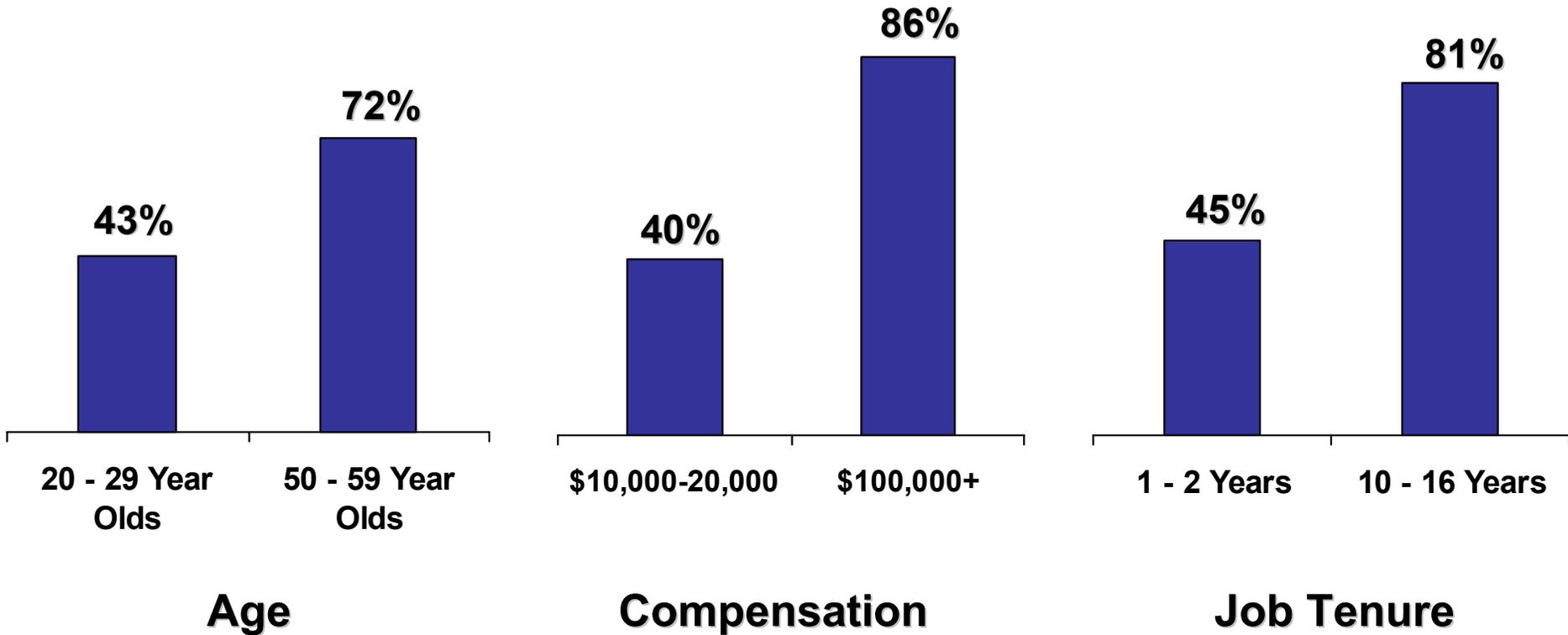
Penetration by Company Size

% of Plans



Source: Cerulli Associates, US Department of Labor, and Bernstein Research

Employees Have Embraced 401(k) Plans



Source: *Building Futures: Volume III*, Fidelity Investments Institutional Services Company, Inc., 2001

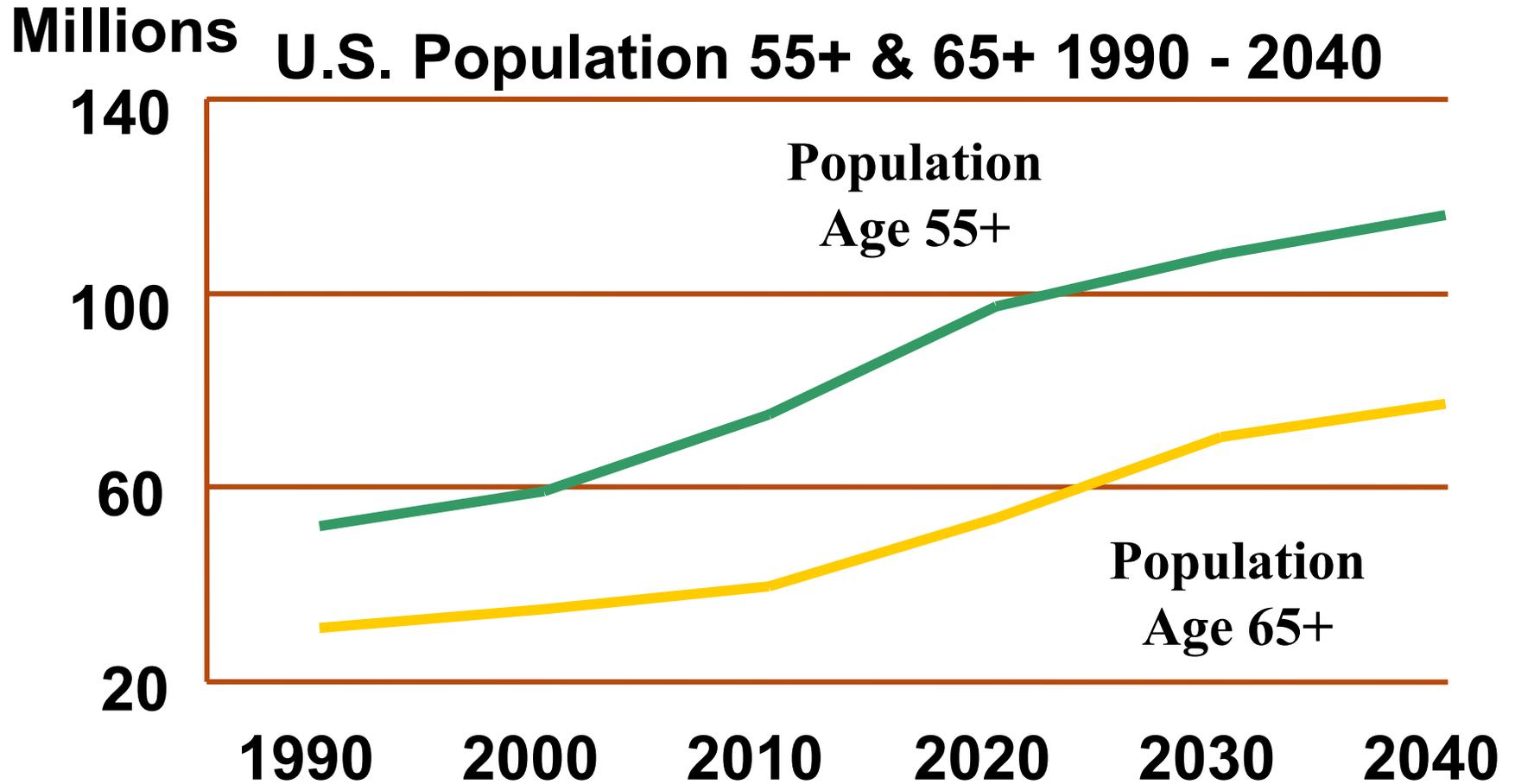
401(k) Retirement Savings Projections

	Young Adult	Mid-Life	Pre-Retiree
Age Range	21-34	35-50	51-64
Plan Balance at Retirement	\$1,870,000	\$699,000	\$203,000
Balance Needed to Provide ALL Retirement Income	\$1,508,000	\$1,260,000	\$834,000
% Met by 401(k) Plan Balance	124%	55%	24%

Source: *Building Futures: Volume III, Fidelity Investments Institutional Services Company, Inc., 2001*

Health Care Trends

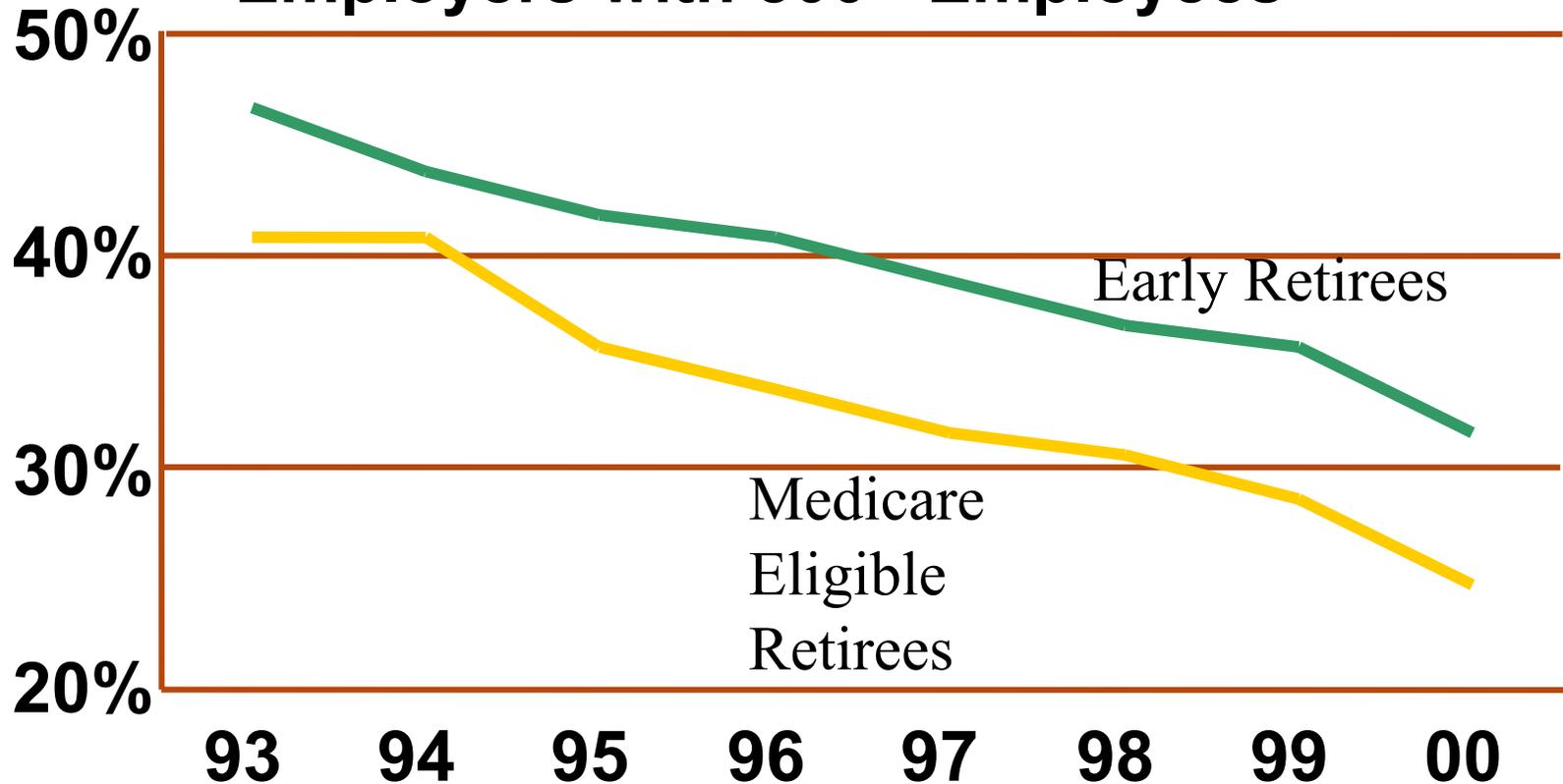
Rapidly Growing Population



Source: U.S. Census

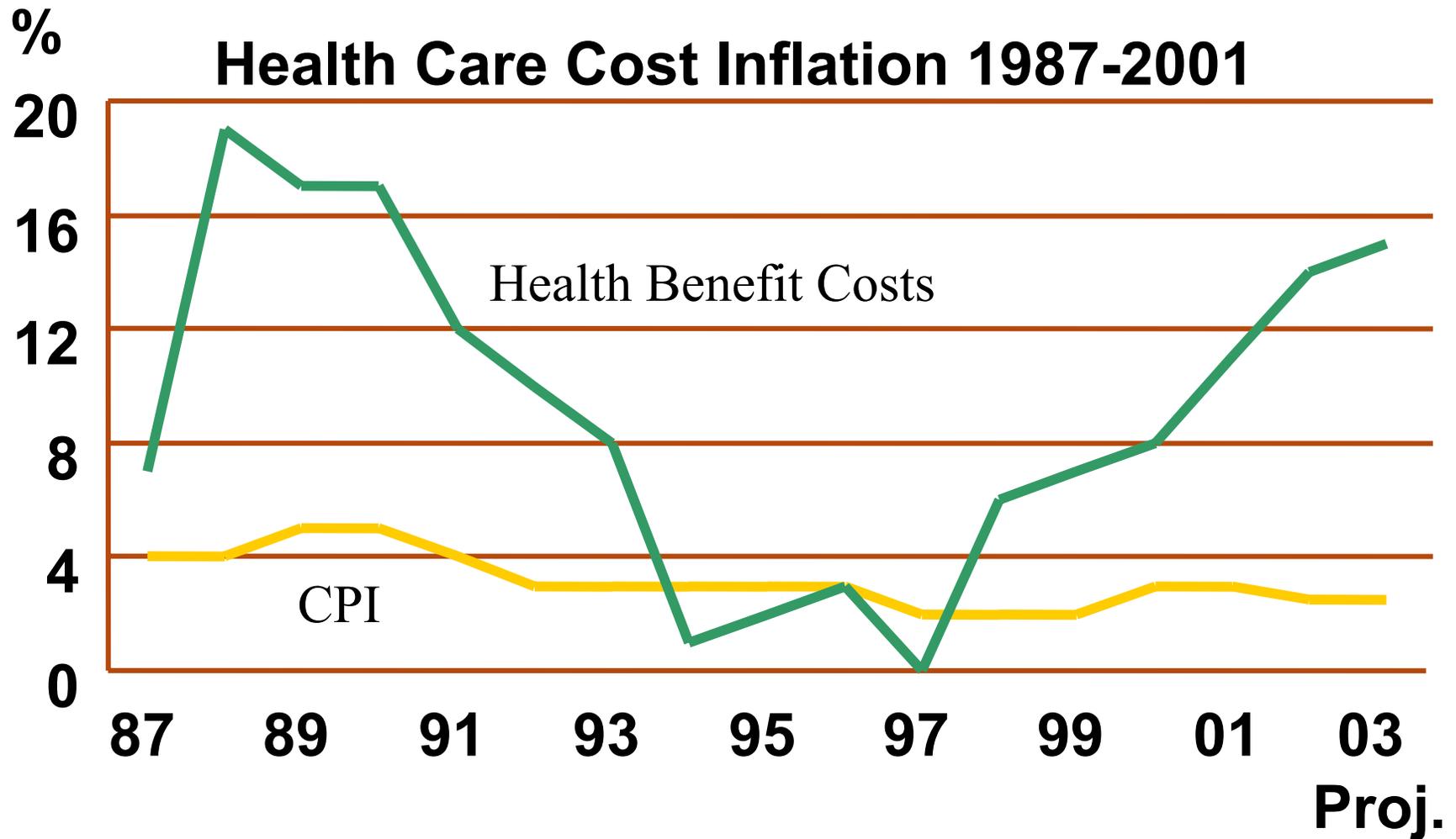
Declining Health Benefits for Future Retirees

Employer Sponsored Coverage, Employers with 500+ Employees



Source: William Mercer 2000 / Source: Hewitt Associates 2001

Skyrocketing Health Care Costs



Source: U.S. Department of Labor, Bureau of Labor Statistics; William M. Mercer, 2000, *Salisbury and Ostuw, 2000

Retiree Health Care Costs

Retiree Health Care Costs:
Addressing the Growing Gap
www.fidelity.com/workplace

Retiree Health Care Costs

- **Many Americans will incur significant health care expenses in retirement**
- **A couple retiring today at age 65 would need approximately \$160,000 to cover medical expenses**
- **Including Long Term Care coverage would add \$130,000 to costs**
- **There is time . . . But new savings vehicles and education are needed**

Summary of Expected Costs

	Per Member Per Month	Present Value for Couple at 65
Part A Inpatient Deductible & Coinsurance	\$20	\$10,800
Part B Premium	\$50	\$26,900
Part B Deductible	\$5	\$ 2,700
Part B Coinsurance	\$60	\$32,400
Prescription Drugs	\$125	\$67,300
Other, Incl. Benefits Not Covered by Medicare	\$40	\$21,500
Total	\$300	\$161,600

Assumptions

- **Medicare eligible, employer-sponsored coverage unavailable**
- **Use expected out-of-pocket expenses and/or costs to estimate liability**
- **Life expectancy 80 for male, 85 for female**
- **Medical inflation rate = 8%**
- **Discount rate = 5%**

Today's Health Care Employer Vehicles

	Funded	Tax Deductible	Reduces FAS 106 Liability
VEBA	X	Limited	X
401(h)	Limited	X	X
Health Accounts		As Paid	

Ideal	X	X	X
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Today's Health Care Employee Savings Vehicles

	Pre-tax Contributions	Tax-free Accumulation	Tax-free Withdrawals	Portability
401(k)	X	X		X
Employee Pay All VEBA		X	X	
RMBA	X	X	X	

Ideal	X	X	X	X
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What's the Answer?

Strengthen All Programs

- 1. Employer Provided Benefits**
- 2. Employee Retirement Savings**
- 3. Medicare – Federal**
- 4. Medicaid – State/Federal**