Statement
for the

United States Senate Special Committee on Aging

Hearing on the

February 25, 2009

"Boomer Bust? Securing Retirement in a Volatile Economy"

By

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Oral Testimony of Dallas Salisbury

Chairman Kohl, Senator Martinez, and members of the committee: My name is Dallas Salisbury. It is a pleasure to appear before you today. I will focus my comments on significant EBRI research findings that speak to securing retirement in a volatile economy.

1. Supplementation of Social Security has been left to voluntary effort. Just released survey data from the Federal Reserve shows dramatic increases in family asset levels since 1989 as a result of participation in voluntary retirement programs.
2. The most recent data suggests that today about 17% of all private workers, or about 20 million workers, are active participants in a defined benefit plan, and 56%, or about 66 million workers, are active participants in a defined contribution plan. About 36 million are separated participants or retirees in pay status.
3. Small employers can sponsor plans based upon an Individual Retirement Account (IRA), and individuals can create an IRA. An estimated 50 million have some type of IRA.
4. Concern over the large number of employers and individuals that have not chosen to create plans or contribute to them have led to changes in public policy. The Pension Protection Act of 2006 included auto enrollment and default investment diversification provisions seeking to (a) increase (a) participation and (b) portfolio diversification and rebalancing over time.
5. Record keeping data suggests that auto enrollment increased participation in a broad group of plans from under 50% to over 80%.
6. Related to portfolios, EBRI data showed that at year end 2007 13% of 401(k) participants had no money in equities and 43.4% had 80% or more in equities. Data shows widespread adoption of defaults into lifecycle or target-date funds that set the asset allocation according to the age of the participant and rebalance the asset classes on an ongoing basis. The forthcoming March 2009 EBRI Issue Brief finds that of those 401(k) plan participants who were in plans that offered a target date fund, 36.9% had at least some portion of their account in target date funds in 2007. Among those identified as auto enrollees, approximately 88% of those investing in target date funds invested all of their assets in target date funds, regardless of their account balance. The one clear result of the target date fund use is that it shifts participant's asset allocations away from all or nothing allocations in equities across all ages.
7. EBRI research has found that if 401(k) participants between the ages of 56 and 65 had been in the average target-date fund at the end of 2007, approximately 40 percent of the participants would have had at least a 20 percent decrease in their equity concentrations. Based on counterfactual simulations from years 2000 through 2006, inclusive: If all 401(k) participants had invested in target-date funds with the age-specific average equity allocations, their median 401(k) balances would have been larger at year-end 2006 for all four age cohorts analyzed. When the most aggressive target date funds were compared to actual participant directed decisions, the median 401(k) balances for three of the four age cohorts would have been larger had they been in target date funds. When the most conservative target date funds were compared to actual participant directed decisions, the median 401(k) balances for those up to age 45 would have been larger had they been in target date funds;

however those over age 45 would have ended up with smaller median 401(k) balances if they had adopted target date funds.

8. The February 2009 EBRI Issue Brief finds that those with low account balances relative to contributions who were in 401(k) plans at year-end 2007 experienced de minimis investment losses that were typically more than made up by contributions: those with less than $10,000 in account balances had an average growth of 40 percent during 2008. However, those with more than $200,000 in account balances had an average loss of more than 25 percent. 401(k) participants on the verge of retirement (ages 56-65) had average changes during this period that varied between a positive one percent for short tenure individuals (1 to 4 years) to more than a 25 percent loss for those with long tenure (more than 20 years).
9. The February 2009 EBRI Issue Brief also presents calculations on how long it might take for the 12/31/08 401(k) balances to recover to their 1/1/08 levels. At a 5 percent equity rate of return assumption, those with the longest tenure would need nearly two years at the median but approximately five years at the 90^{th} percentile. If the equity rate of return is assumed to drop to zero for the next few years, this recovery time increases to approximately 2.5 years at the median and 9 to 10 years at the 90^{th} percentile.
10. To conclude, voluntary defined benefit and defined contribution plans in the private sector provide current retirement income to millions of retirees, and hold assets for millions of workers and retirees. Recent public policy changes are increasing the numbers of participants and the diversification of their accounts.
11. Mr. Chairman and members of the committee, I commend you for exploring these topics, and thank you for the opportunity to appear before you today.

Written Testimony of Dallas Salisbury

Chairman Kohl, Senator Martinez, and members of the committee: My name is Dallas Salisbury. I am president and chief executive officer of the nonpartisan Employee Benefit Research Institute (EBRI) and Chairman of the American Savings Education Council. I am pleased to appear before you today. All views expressed are my own, and should not be attributed to EBRI, or any other individual or organization. I have personally worked on retirement and pension issues since joining the Labor Department in 1975 as it was organizing to fulfill its responsibilities under the Employee Retirement Income Security Act of 1974 (ERISA). I was later on the staff of the Pension Benefit Guaranty Corporation, before joining EBRI in 1978 as its first employee.

Established in 1978, EBRI is committed exclusively to data dissemination, policy research, and education on financial security and employee benefits. EBRI does not lobby or advocate specific policy recommendations; the mission is to provide objective and reliable research and information. All of our research is available on the Internet at www.ebri.org and our savings and financial education material is at www.choosetosave.org

Voluntary Pension Saving in the United States

Social Security was established in 1937 to provide a base level of retirement income for nearly all those who have worked in our nation, and their survivors. Supplementation of Social Security has been left to voluntary effort on the part of employers and individuals. The Social Security Administration reports that over 80 percent of retirees have income that supplements Social Security.[1] Supplemental retirement programs are most important for those for whom Social Security replaces the lowest proportion of their income. (see slide 2).

Survey data from the Federal Reserve shows dramatic increases in family asset levels since 1989 as a result of participation in voluntary retirement programs, with median values growing from just under $18,000 to $45,000 in 2007. (see slide 3). Data taken from numerous contributors and compiled by the Investment Company Institute shows dramatic asset growth in voluntary defined benefit plans, defined contribution plans, and Individual Retirement Accounts as well, amounting to trillions of dollars. (see slide 4)

Employers and unions have been encouraged by public policy to voluntarily provide programs to assist workers in building supplemental savings and income. Since 1974 when Congress enacted the Employee Retirement Income Security Act (ERISA) a range of minimum standards have been specified that these voluntary plans must meet in order to receive favorable tax treatment.

ERISA includes as pension plans both defined benefit (such as CSRS and FERS) and defined contribution plans (such as TSP). The former promises a benefit while the later promises a contribution. The Federal Government had only a defined benefit plan until 1987 (CSRS), when the TSP began to operate and new hires were moved to the less generous FERS defined benefit plan. At the same time Federal workers began to participate in the Social Security program.

There are multiple data sources on the number of workers participating in these programs. Data from the IRS Form 5500 annual plan report is the most reliable for aggregate numbers.[2] Over the last 35 years since ERISA passed some trends are clear in the voluntary private system (see table below):

The number of defined benefit plans has declined, along with active participants (see slide 5). It should be noted that defined benefit plans do not just provide life income annuities. Over one third of defined benefit plans have been purposely redesigned to communicate an account balance versus an annuity value; over 50% of those reaching retirement age with a defined benefit plan are offered a single sum distribution; and, the vast majority of those offered the single sum take it (Not at retirement see Vanguard's study. Still working typically yes.).

The number of defined contribution plans has grown dramatically along with the number of participants in both absolute numbers and as a proportion of the workforce, as well as the number of workers that view this plan as their primary retirement plan. (see slides 5 and 6)

While the proportion of workers whose employer sponsors a plan or participates in a plan has changed little in the last 30 years, the number with a non-forfeitable right to a vested benefit has increased 71%. (see slide 7) The change in vesting standards since 1974 served to change the nature of defined benefit plans from providing value only for longer service workers to providing something to over half of those that passed through an employer. Small distributions going to millions of short service workers also served to increase the cost of plans. Since defined contribution plans were generally designed to provide a contribution to most workers as a set percent of salary, faster vesting had limited impact on plan cost or purpose. Thus, well intentioned reforms encouraged the movement from defined benefit to defined contribution plans.

What numbers you look at makes a big difference in assessing the voluntary system, as 41.5% of all workers participate in a plan at work, but 55.3% of full-time, full-year private wage and salary workers between 21 and 64 (see slide 8). Of those where the employer sponsors a plan over 87% do participate. While, from employer to employer, the numbers vary dramatically.

Plan Type	1975	1986	2006
DB Number of Plans	103,000	173,000	48,000
DC Number of Plans	208,000	545,000	631,000
DB Total Participants	33 million	40 million	42 million
DC Total Participants	12 million	37 million	80 million
DB Active Participants	27 million	29 million	20 million
DC Active Participants	11 million	35 million	66 million
Private Wage/Salary Workers	68 million	90 million	118 million
DB Active Percent	40 %	32%	17%
DC Active Percent	16 %	38%	56%

Retirement plan coverage is highest among those with employer provided health insurance, underlining how economic security programs fit together. (see chart 9). For example, the EBRI Health Confidence Survey finds that over 60% of workers reported an increase in health costs last year and over half covered that cost by reducing their contribution level to retirement savings programs.

Small employers can choose the lower cost option of sponsoring an IRA type program for their employees. The Investment Company Institute (ICI) projects that 10 million workers are in such employer based IRA programs, representing another 8% of wage and salary workers. It is unlikely that these workers are active participants in any other plan at their place of employment. Are other small employer plans worth mentioning?

Since 1974 when Congress established Individual Retirement Accounts tax policy has also encouraged individuals to save directly for retirement outside of employment.[3] The ICI estimates that 37.5 million individuals have traditional IRAs and 18.6 million individuals a Roth IRA, and a total of 47.3 million with some type of IRA. Both the IRS and ICI report that a significant proportion of the assets in these IRAs were rollovers from employment based plan single sum distributions. For example, in 2004 rollovers totaled $214.9 billion compared to contributions of $48.7 billion. The IRS reported a total of 50.9 million IRAs in 2004 and total assets of $3.3 trillion dollars. By the end of the second quarter of 2008 the ICI estimated assets at $4.5 trillion, but it is safe to assume that market declines since that time have moved the number back towards the 2004 level. Past studies suggest that more than half of the total assets in IRAs came from employment based pension rollovers.

I also want to emphasize that a substantial portion of these rollovers come from defined benefit plans. Over half of private defined benefit plans offer single sum distributions at retirement, as well as paying small single sum distributions to millions of short service workers who accumulate small amounts. Even the Pension Benefit Guaranty Corporation reports significant single sum payments from terminating defined benefit plans.[4] In this regard, the notion of conventional wisdom that ***all*** those in defined benefit plans receive life income annuities and are thus protected against market risk and longevity risk, is wrong.

The Pension Protection Act of 2006 changed the rules for defined contribution plans when it put "auto-enrollment" into the statute. This change was driven by a concern over the large number of workers that were not choosing to participate in a voluntary defined contribution plan at work. One large record keeper, Fidelity Investments, has recorded dramatic increases in the adoption of this approach (see slide 10) and another, Vanguard, has documented the increase in actual plan participation that comes with the approach. (see slide 11)

As was recognized in PPA, and documented for many years by EBRI, there is very wide variation in how 401(k) participants allocate their contributions and account balances. At year end 2007 13% had no money in equities and 43.4% had 80% or more in equities (see slide 12). Such extremes, combined with concerns over concentrations in employer stock, led to proposals for auto diversification. Such defaults were provided in PPA and have brought increased use of funds that balance asset classes (see slide 13), with PSCA.org reporting (see slide 14) that by 2007 nearly 65% were being defaulted into lifestyle or target date funds compared to 15% in 2002. Fidelity found that between September 2005 and December 2008 the movement in their plans was from 4% to 60% using the lifecycle or target date default (see slide 15). Such funds include multiple asset classes and are rebalanced as the markets move to maintain a 'target' asset allocation.

The forthcoming March 2009 EBRI Issue Brief will report that of those 401(k) plan participants who were in plans that offered a target date fund, 36.9 percent had at least some portion of their account in target date funds in 2007. The likelihood of a participant investing in target date funds decreased as the age of the participant increased: 43.7 percent of participants under age 30 compared with 27.0 percent of those ages 60 or older. Those with salaries less than $40,000 were more likely to use target date funds than those with salaries larger than this amount.[5] Furthermore, as tenure and account balance increase, the likelihood of the participant using target date funds declines. (see slides 16, 17 and 18)

Consequently, those that use target date funds relative to those that do not are more likely to be younger, have lower salaries, less tenure, have smaller account balances, and/or be in plans with a smaller number of participants. The average target date fund investor is about 2.5 years younger than those that do not invest in target date funds. They make about $11,000 less on average in salary, have about 3.5 years on average less in tenure, have $25,000 on average less in their account, and are in plans with an average of 1,200 less participants.

Among the participants who invested in target date funds that could be completely identified within the study database (name of fund, target date year, and asset allocation within the fund by target date year), 7.2 percent were determined to be auto enrollees under the identification methodology used in the March 2009 *EBRI Issue Brief* (see slide 16).[6]

In general, auto enrollees were younger, lower salaried, more likely to be in the largest plans, more likely to have all their account balance in target date funds, more likely to use only one target date fund, more likely to have 75 percent to 89 percent of their assets in equities, and be in target date funds with dates further in the future (Slide 16). In particular, 33.3 percent of those determined to be auto enrollees were younger than age 30, while only 13.7 percent of those determined not to be auto enrollees were younger than age 30. Approximately 50 percent of those determined to be auto enrollees had salaries less than $20,000, compared with just over 15 percent of those using target date funds but were not determined to be auto enrollees, while 55.5 percent of auto enrollees were in plans with more than 5,000 participants compared with 46.5 percent who were not. Furthermore, 73.8 percent of auto enrollees had a total (inside the target date fund plus any equity outside the target date funds) equity allocation of 75 percent to 89 percent. The nonautoenrollees had a more diverse distribution, as only 40.2 percent had a total equity allocation in this range. A larger percentage of these nonautoenrollees had allocations of 90 percent or more to equities or allocations of less than 75 percent of equities than the auto enrollees had.

Another factor of auto enrollment is the likelihood of being only invested in target date funds. Those identified as auto enrollees were significantly more likely to have all their assets invested in the target date funds. As shown in slide 17, except for participants in the largest plans (more than 10,000 participants). Over 90 percent of those automatically enrolled into target date funds had all their allocation in target date funds. However, for those who appeared to select target date funds on their own, 50 percent of those in the smallest plans to 30 percent of those in the largest plans had 100 percent of their assets in the target date fund.

A similar result held true across account balance size. Among auto enrollees, approximately 80 percent of those investing in target date funds invested all of their assets in target date funds, regardless of their account balance. However, among those who were not auto enrolled, the likelihood of a participant being completely invested in target date funds decreased significantly as the account balance increased. Over 60 percent of target date investors with account balances less than $5,000 had all their assets in target date funds, compared with just over 10 percent of target date investors with balances of $200,000 or more (slide 18).

The one clear result of the target date fund use is that it does shift participant's asset allocations away from all or nothing allocations in equities across all ages (see slide 12). This results in participants having a theoretically superior long term asset allocation of taking larger risks when they are young and lower these risks as the participant becomes closer to retirement. For example, a target date fund designed for someone in their 30's who would expect to retire around 2040 has on average allocation of about 90 percent in equities. Yet, as the individual gets closer to their target retirement year such as those with a 2010 target retirement date, the average allocation to equities is 45 percent (slide 19).

Target date funds are actively managed funds that vary widely in asset allocation for given stated years (see slide 19). This resulted in wide variation in losses in the recent market decline for similarly dated funds, causing some confusion.

As we all are painfully aware, the markets have taken a significant dip since the fall of 2007. This is true for both defined benefit and defined contribution plans.

The performance of institutional investors' portfolios for the 2008 calendar year was down approximately 25%, according to the Wilshire Trust Universe Comparison Service (Wilshire TUCS). According to a news report "a news release said Taft Hartley funds with assets greater than $1 billion saw the worst returns at -27.49% for the year and -15.59% for the fourth quarter. The median performance of all master trusts for the year ended December 31, 2008, according to Wilshire data, was -24.54% with a quarterly return of -12.83%. The median performance of corporate pension plans was -25.85% for the year and -13.09% for the quarter, while public pension funds' median performance was -24.91% for the year and -13.18% for the third quarter."

Defined contribution participants were hit hard if they were exposed to equities, as many were. While 2007 and 2008 brought significant market adjustment, these programs still hold trillions of dollars. Individual account balances in 401(k) plans, and similar plans grew through the end of 2007 (see slide 20). Many reports look at a single average and median account balance across all accounts, but it is more important to look at variation tied to age and tenure of participants. For example, at the end of 2007 the overall 401(k) median was about $19,000 compared to about $345,000 for high income long tenured workers in their 60's. (see slides 21 and 22).

Applying an estimated decline since 12/31/2007 of 27%, the average account had declined from over $65,000 on 12/31/2007 to about $48,000 at 12/31/2008.

A central question that our research has explored is how long it will take participants to rebuild account balances going forward. The February 2009 EBRI Issue Brief examined this question against several possible future rates of return. Changes in average 401(k) balances were estimated from 1/1/08 to 1/20/09 based on the EBRI/ICI database of more than 22 million participants. Not surprisingly the impact of this recent financial market performance on 401(k) account balances is a function of size of the participant's account balance. Those with low account balances relative to contributions experienced de minimis investment losses that were typically more than made up by contributions: those with less than $10,000 in account balances had an average growth of 40 percent during 2008. However, those with more than $200,000 in account balances had an average loss of more than 25 percent (see slide 23).

401(k) participants on the verge of retirement (ages 56-65) had average changes during this period that varied between a positive one percent for short tenure individuals (1 to 4 years) to more than a 25 percent loss for those with long tenure (more than 20 years) (see slides 24 and 25).

While much of the focus has been on market fluctuations in the last year, investing for retirement security should be a long-term proposition. When a consistent sample of 2.2 million participants who had been with the same plan sponsor from 1999 though 2006 was analyzed, the average estimated growth rates for the period from 1/1/00 through 1/20/09 ranged from 29 percent for long-tenure older participants to more than 500 percent for short-tenure younger participants.

The February EBRI Issue Brief also presents calculations on how long it might take for the 12/31/08 401(k) balances to recover to their 1/1/08 levels. At a 5 percent equity rate of return assumption, those with longest tenure would need nearly two years at the median but approximately five years at the 90^{th} percentile. If the equity rate of return is assumed to drop to zero for the next few years, this recovery time increases to approximately 2.5 years at the median and 9 to 10 years at the 90^{th} percentile (see slide 26).

As I noted, nearly 1 in 4 participants between the ages 56 and 65 had more than 90 percent of their account balances in equities at year-end 2007 and more than 2 in 5 had more than 70 percent. Also as noted, many sponsors are now moving to lifecycle/target date funds. These funds automatically rebalance asset allocations and move them to what are thought of by many practitioners as more "age appropriate." Had all 401(k) participants been in the average target date fund at the end of 2007, 40 percent of the participants would have had at least a 20 percent decrease in their equity concentrations.

My concluding point today comes back to the ongoing discussion of defined benefit versus defined contribution plans in a voluntary system. Prior to the passage of ERISA nearly all defined benefit plans paid retirement benefits as a life income annuity. Today, most private plan participants have the option of a single sum distribution, as is the rule in defined contribution plans. Our highly mobile workforce has median job tenure of less than four years, and less than ten years for those between 55 and 64. As a result, most workers in both plan types earn limited amounts with any one employer. Long tenure workers can accumulate substantial amounts. When single sums are chosen, less than half of workers under the age of 50 save the entire distribution for retirement, as do less than 50% of those getting a distribution of less than $20,000 (see slides 28 and 29). New data from the Federal Reserve suggests why this is so: only about one third of workers have ‘retirement’ as the primary reason for their savings (see slide 30). Yet, saving through a ‘retirement’ plan at work is the most effective and lucrative way to save, even if not actually saving for retirement. And, loan provisions, hardship withdrawal provisions, single sum distributions, and other legal design features workers the flexibility to use ‘retirement’ plans to save, while using the funds to meet other objectives.

Conclusion

Advocates reach different conclusions on what all of the data should mean for future public policy. I will not enter that debate. I will note, however, that 401(k) and other voluntary plans are currently meeting the explicit objectives of current public policies. Different objectives would demand different laws and regulations, but the system should be judged first against current rules, and then the debate over whether the objectives and the rules should change can proceed. Voluntary does mean voluntary.

Mandates would clearly allow different objectives to be met. Fixed government set investments would lead to different outcomes.

I want to end where I started, with Social Security. It is unique in our nation as it is mandatory, universal, involves each generation in a family in the support of each other, provides a floor of income in the event of worker death, disability, or retirement, pools mortality so that payments are distributed exclusively to meet a life income objective, and has extremely low administrative expense. History and data suggest that no voluntary program can ever meet these objectives. History also suggests that no mandated program outside the government could do so as efficiently, and no program that allows single sum distributions could provide life income for the population as cost effectively.

Private voluntary defined benefit and defined contribution programs were created as asset accumulation programs for the workers of those employers that choose to create a plan. They have and are meeting that objective.

Mr. Chairman and members of the committee, I commend you for exploring these topics, and thank you for the opportunity to appear before you today.

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Statement Appendix*
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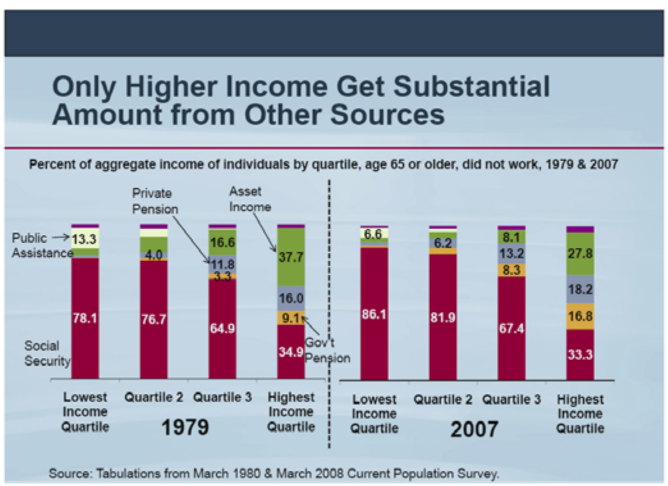
*This testimony expresses the views of Mr. Salisbury alone and should not be attributed to any other individual or organization unless specifically noted in the statement.

1

Retirement Plans Most Important Where Social Security Provides Least



2

Retirement Accounts Have Resulted in Individual Asset Growth

Median value of retirement accounts for families with holdings

Year	All families
Level (thousands of 2007 dollars)	
1989	17.7
1992	20.3
1995	23.0
1998	30.6
2001	34.2
2004	38.7
2007	45.0
Three-year change (percent)	
1992	14.7
1995	13.3
1998	33.0
2001	11.8
2004	13.2
2007	16.3

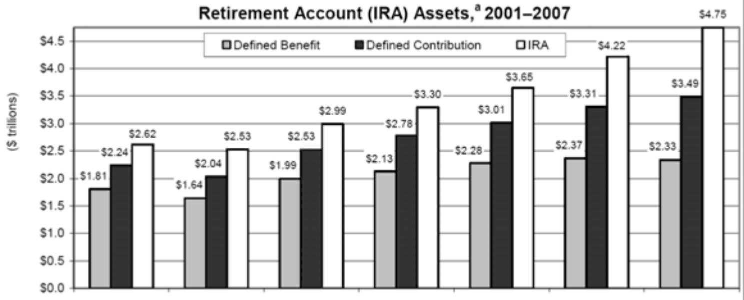
Source:http://www.federalreserve.gov/pubs/oss/oss2/2007/scf2007home.html

3

Total Assets Grew Significantly Through 2007

Figure 4

Private Employment-Based Retirement Plan and Individual Retirement Account (IRA) Assets,[a] 2001–2007



Source: For the IRAs, Investment Company Institute (ICI) using their own data and data from the Federal Reserve Board, American Council of Life Insurers, and Internal Revenue Service Statistics of Income Division. The most recent data from ICI can be found in Investment Company Institute, "The U.S. Retirement Market, 2007," *Research Fundamentals*, Vol. 17, No. 3 (Investment Company Institute, July 2008), www.ici.org/pdf/fm-v17n3.pdf
For the employment-based plans, Board of Governors of the Federal Reserve, *Flow of Funds Accounts of the United States: Flows and Outstandings, First Quarter 2008* (July 5, 2008), and the Department of Labor.

[a] The asset level of IRAs for depositories include Keogh accounts held there.

4

30 years of DC growth and 20 years of DB decline

Plan Type	1975	1986	2006
DB Number of Plans	103,000	173,000	48,000
DC Number of Plans	208,000	545,000	631,000
DB Total Participants	**33** million	**40** million	**42** million
DC Total Participants	**12** million	**37** million	**80** million
DB Active Participants	**27** million	**29** million	**20** million
DC Active Participants	**11** million	**35** million	**66** million
Private W/S Workers	68 million	90 million	118 million
DB Active Percent	40 %	32%	17%
DC Active Percent	16 %	38%	56%

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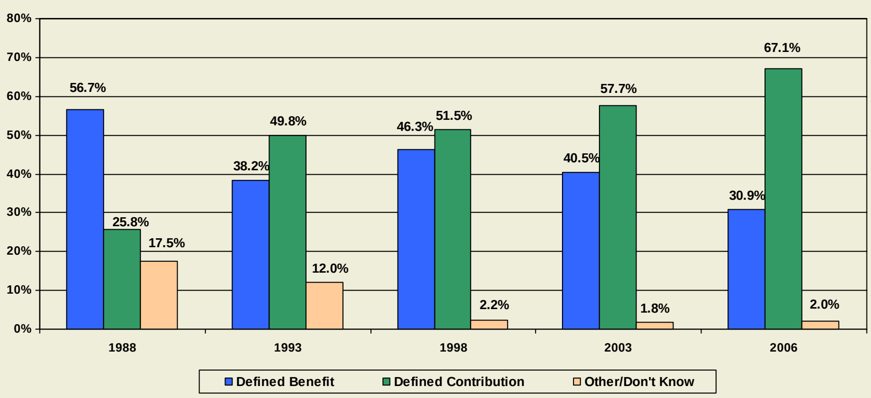
5

Primary Retirement Plan Identity Has Shifted to DC

(As Reported by the Workers)



Source: Employee Benefit Research Institute estimates of the May 1988 and April 1993 Current Population Survey employee benefit supplements and the 1996, 2001, and 2004 Panel of the Survey of Income and Program Participation Topical Module 7.

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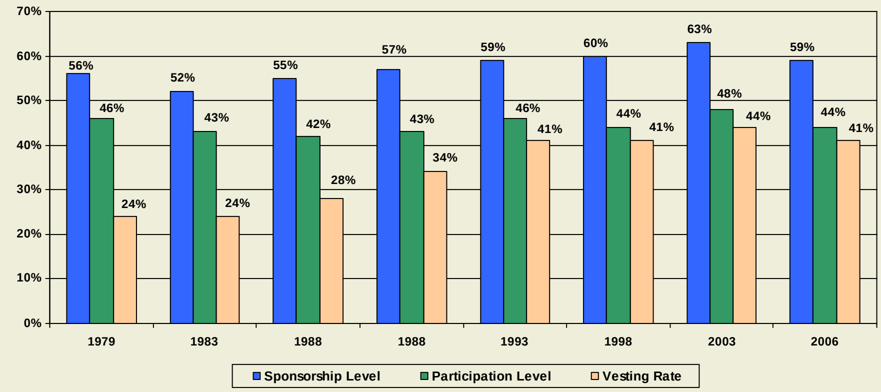
6

Benefit Entitlement Has Grown Over Time As Vesting Requirements Shortened



Source: Employee Benefit Research Institute estimates of the May 1979, May 1983, May 1988, and April 1993 Current Population Survey employee benefit supplements and the 1996, 2001, and 2004 Panel of the Survey of Income and Program Participation Topical Module 7.

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7

Who Is Counted Matters in Reported Percentages

Figure 1

Percentage of Various Work Forces Who Work for an Employer That Sponsored a Retirement Plan, and the Percentage Who Participated in a Plan, 2007

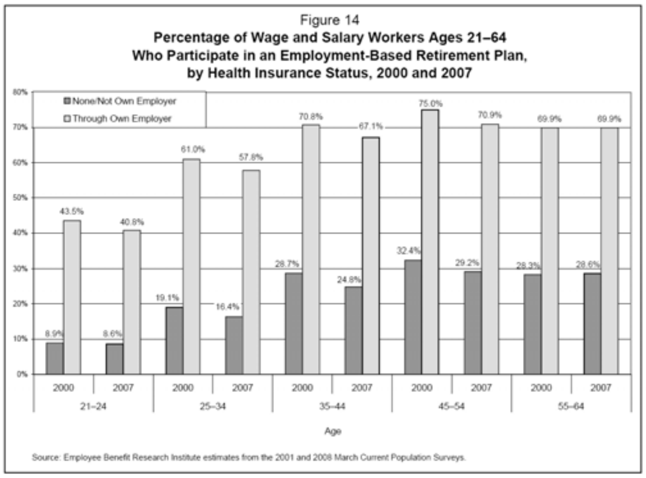
	All Workers	Wage and Salary Workers Ages 21–64	Private-Sector Wage and Salary Workers Ages 21–64	Public-Sector Wage and Salary Workers Ages 21–64	Full-Time, Full-Year Wage and Salary Workers Ages 21–64
			(millions)		
Worker Category Total	158.1	131.2	110.1	21.1	97.1
Works for an employer sponsoring a plan	81.9	75.6	58.0	17.6	61.3
Participating in a plan	65.6	62.2	46.3	15.9	53.7
			(percentage)		
Worker Category Total	100.0%	100.0%	100.0%	100.0%	100.0%
Works for an employer sponsoring a plan	51.8	57.6	52.7	83.3	63.1
Participating in a plan	41.5	47.4	42.0	75.4	55.3

Source: Employee Benefit Research Institute estimates from the 2008 March Current Population Survey.

8

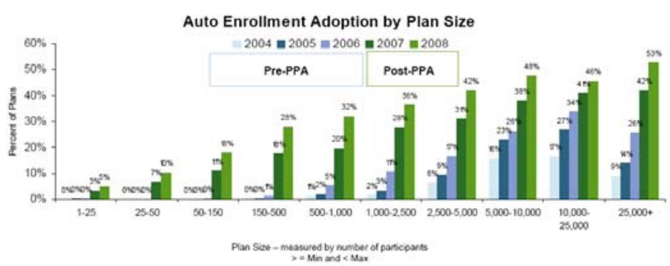
Highest for those with employer sponsored health insurance

Employer health premium payment frees up income for savings.



9

PPA Auto Enrollment Adoption By Plan Size

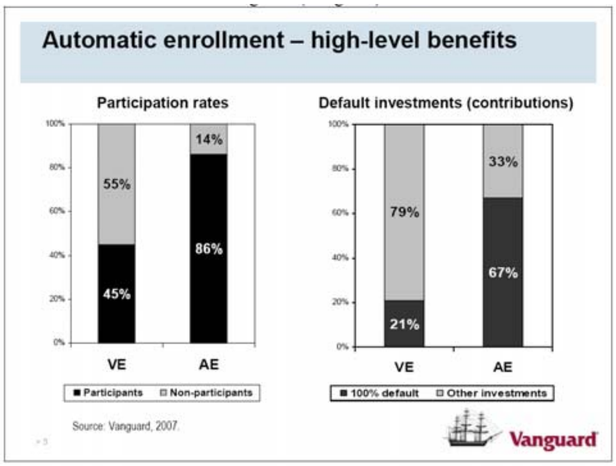


- While larger plans have led the early trend of plan adoption of Auto Enrollment, smaller plans are increasingly adopting auto enrollment.
- Pre-PPA adoption of Auto Enrollment among small plans was minimal.
- Post-PPA growth in adoption of Auto Enrollment has been significant across all plan sizes.

Source: Fidelity recordkept data: Corporate DC Qualified Auto Features Plans as of 12/31/2008

10

PPA auto enrollment is raising participation rates



11

Extremes Show Up

Figure 27

Asset Allocation to Equities Varies Widely Among Participants

Asset allocation distribution of 401(k) participant account balance to equities,[a] by age, percentage of participants,[b] 2007

	Percentage of Account Balance Invested in Equities[a]					
Age Group	Zero	1–20%	>20–40%	>40–60%	>60–80%	>80–100%
20s	19.2%	2.4%	3.8%	7.1%	19.4%	48.3%
30s	10.9%	2.5%	3.9%	7.9%	20.0%	54.8%
40s	10.8%	3.4%	4.7%	9.1%	28.4%	43.6%
50s	12.2%	5.0%	6.3%	17.5%	23.9%	35.1%
60s	17.7%	7.1%	9.7%	17.2%	18.2%	30.1%
All	13.2%	3.8%	5.3%	11.2%	23.0%	43.4%

Source: Tabulations from EBRI/ICI Participant-Directed Retirement Plan Data Collection Project.

[a] Equities include equity funds, company stock, and the equity portion of balanced funds.

[b] The analysis includes the 21.8 million 401(k) plan participants in the year-end 2007 EBRI/ICI database.

Note: Row percentages may not add to 100 percent because of rounding.

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Equities Dominate Plans and Auto Diversification is Growing

Figure 18

Average Asset Allocation of 401(k) Accounts, by Participant Age

Percentage of account balances, 2007

Age Group	Equity Funds	Lifecycle Funds[a]	Non-Lifecycle Balanced Funds	Bond Funds	Money Funds	GICs[b]/Stable Value Funds	Company Stock	Other	Unknown	Total[c]
20s	48.1%	13.8%	9.2%	6.6%	3.7%	5.9%	8.4%	1.3%	2.7%	100%
30s	56.8%	9.3%	7.4%	6.9%	3.0%	4.9%	8.9%	1.7%	1.0%	100%
40s	54.0%	7.4%	7.6%	7.1%	3.3%	6.8%	10.7%	2.0%	0.8%	100%
50s	45.9%	7.1%	8.4%	8.6%	4.3%	11.3%	11.5%	2.2%	0.6%	100%
60s	38.5%	6.5%	8.3%	10.4%	5.9%	17.8%	9.7%	2.1%	0.5%	100%
All	48.2%	7.4%	8.0%	8.3%	4.2%	10.6%	10.6%	2.1%	0.7%	100%

Source: Tabulations from EBRI/ICI Participant-Directed Retirement Plan Data Collection Project.

[a] A lifecycle fund typically rebalances to an increasingly conservative portfolio as the target date of the fund, which is usually included in the fund's name, approaches.

[b] GICs are guaranteed investment contracts.

[c] Row percentages may not add up to 100 percent because of rounding. Percentages are dollar-weighted averages.

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PPA QDIA Driven Diversification/Rebalancing

Impact of the 2006 Pension Protection Act

Automatic Enrollment Default Investment

Year	Stbl. Val.	MM	Bal.	Life/ Target	Other
2007	8.9%	2.5%	13.9%	64.6%	10.1%
2006	19.2	6.4	14.6	53.4	6.4
2005	30.3	9.7	17.0	37.0	6.1
2004	26.9	23.7	29.0	8.6	11.9
2003	30.3	19.7	36.4	9.1	4.5
2002	31.5	25.9	22.2	14.8	5.6

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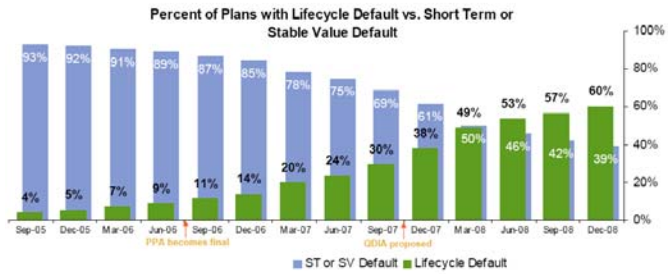
Lifecycle Default



- Across all plans, the usage of lifecycle options as the default investment option has steadily increased.
- As of 12/31/08 60% of plans use a lifecycle option as the default investment option.

Source: Fidelity recordkept data: Corporate DC Plans as of 12/31/2008

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Distribution of Target Date Fund Users, by Auto enrollment and Nonautoenrollment Status, and Age, Salary, and Total Equity Allocation, 2007

	All With Target Date Funds	Auto-Enrollees	Nonauto-Enrollees
All	100%	7.2%	92.8%
Age	100%	100%	100%
Under 30	15.1	33.3	13.7
30-39	27.6	28.4	27.5
40-49	28.9	22.4	29.4
50-59	21.7	13.0	22.4
60 or Older	6.7	2.9	7.0
Salary[a]			
<$20,000	20.1	50.7	15.0
$20,000-$39,999	24.8	27.6	24.3
$40,000-$59,999	18.1	9.3	19.6
$60,000-$79,999	11.4	4.1	12.6
$80,000-$99,999	6.5	1.9	7.3
$100,000 or more	19.2	6.4	21.3

	All With Target Date Funds	Auto-Enrollees	Nonauto-Enrollees
	100%	7.2%	92.8%
Total Equity Allocation	100%	100%	100%
1-9%	1.7	0.0	1.9
10%-24%	3.2	1.7	3.4
25%-49%	10.6	3.0	11.2
50%-74%	30.4	16.7	31.4
75%-89%	42.6	73.8	40.2
90%-100%	11.5	4.8	12.1

[a]These tabluations only include those observations with complete slary data.
Source: EBRI tabulations from the EBRI/ICI Participant-Directed Retirement Plan Data Collection Project.

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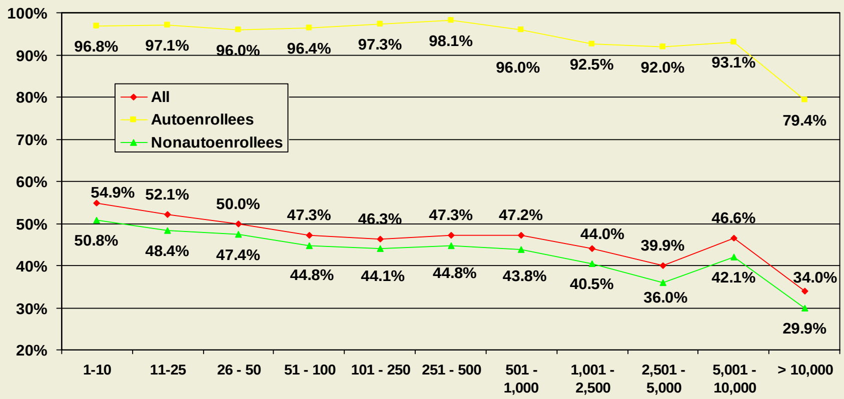
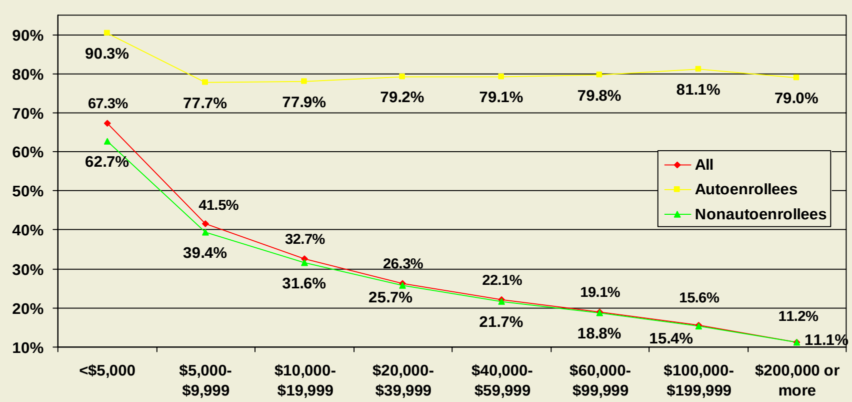
Figure Z

Percentage of Target Date Fund Investors Having All of Their Assets in Target Date Funds, by Plan Size and Automatic Enrollment Status, 2007



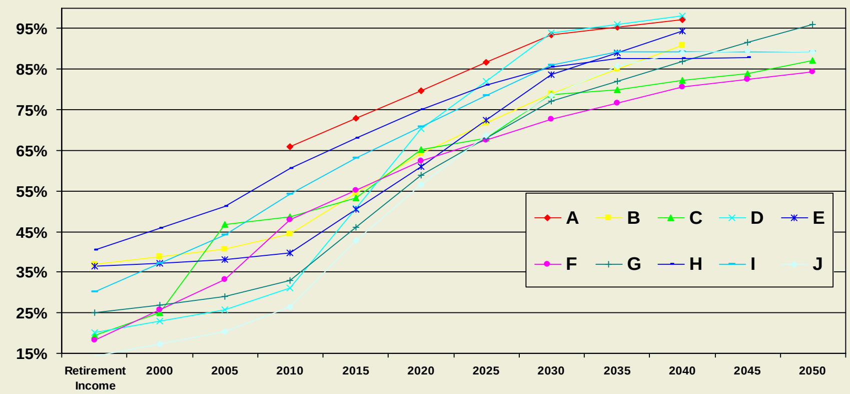
Source: EBRI tabulations from the EBRI/ICI Participant-Directed Retirement Plan Data Collection Project.

Percentage of Target Date Fund Investors Having All of Their Assets in Target Date Funds, by Account Balance and Automatic Enrollment Status, 2007



Source: EBRI tabulations from the EBRI/ICI Participant-Directed Retirement Plan Data Collection Project.

Figure y
Equity Allocation of Ten Target Date Fund Families, by Year of Target Date Fund, End of Year 2007



Source: Asset allocations of the target date funds as reported by Target Data Analytics from Morningstar Principia.
Retirement Income would also represent Target Income, Target Today, Target Now, and other similar names used by Target Date Funds.

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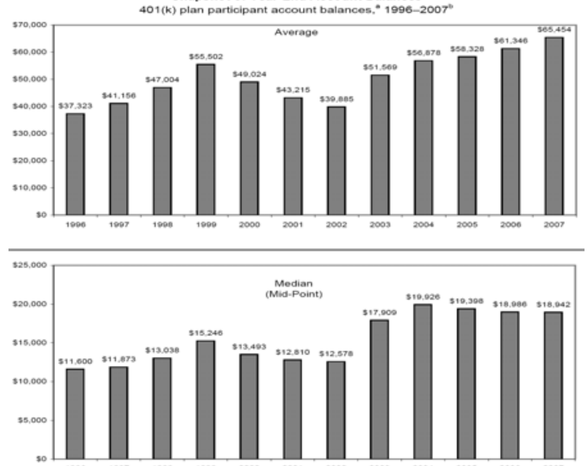
Average and Median Account Balance History

Figure 6
Snapshot of Year-End Account Balances
401(k) plan participant account balances,[a] 1996–2007[b]



Source: Tabulations from EBRI/ICI Participant-Directed Retirement Plan Data Collection Project.
[a] Account balances are participant account balances held in 401(k) plans at the participants' current employers and are net of plan loans. Retirement savings held in plans at previous employers or rolled over into individual retirement accounts (IRAs) are not included.
[b] The sample of participants changes over time.

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Age and Tenure Affect Balances

Figure 10
Account Balances Increase With Age and Tenure
Average 401(k) account balance, by age and tenure, 2007

	Tenure (years)					
Age Group	0–2	>2–5	>5–10	>10–20	>20–30	>30
20s	$4,491	$10,748	$18,564			
30s	$11,502	$23,024	$42,861	$62,207		
40s	$16,672	$31,055	$58,262	$100,856	$151,193	
50s	$20,603	$34,882	$63,783	$111,840	$194,385	$191,225
60s	$24,544	$35,399	$60,525	$105,504	$172,584	$210,457

Source: Tabulations from EBRI/ICI Participant-Directed Retirement Plan Data Collection Project.
Note: At year-end 2007, the average account balance among all 21.8 million 401(k) particiants was $65,454; the median account balance was $18,942.

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Age and Tenure Affect Balances

Figure 13
Median Account Balance[a] Among Long-Tenured[b] Participants, by Age and Salary, 2007

	Participant Age Group				
Salary Range	20s	30s	40s	50s	60s
$20,000–$40,000	$6,759	$21,187	$51,130	$66,378	$58,028
>$40,000–$60,000	$15,510	$37,578	$82,667	$102,410	$97,413
>60,000–$80,000	$33,155	$64,611	$133,488	$160,324	$162,683
>$80,000–$100,000	$49,002	$100,995	$194,832	$226,266	$236,612
>$100,000	$52,268	$150,678	$280,624	$344,526	$344,849

Source: Tabulations from EBRI/ICI Participant-Directed Retirement Plan Data Collection Project.
[a] Account balances are based on administrative records and cover the account balance at the 401(k) plan participant's current employer. Retirement savings held in plans at previous employers or rolled over into individual retirement accounts (IRAs) are not included. Account balances are net of loan balances.
[b] Long-tenured participants are used in this analysis to capture as long a work and savings history as possible. The tenure variable tends to be years with the current employer rather than years of participation in the 401(k) plan. Particularly among older participants, job tenure may not reflect length of participation in the 401(k) plans; the regulations for the 401(k) plans were introduced about 27 years ago.

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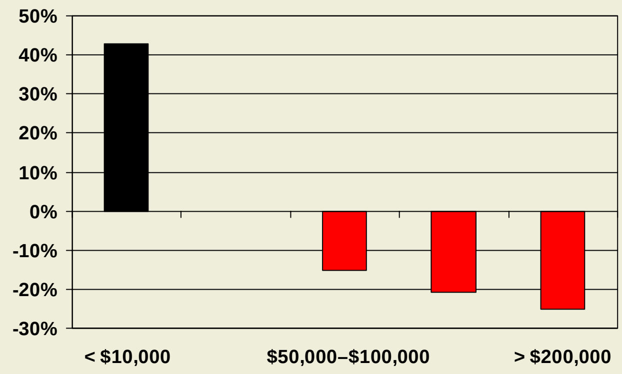
Change In Average Account Balances From Jan. 1, 2008 – Jan. 20, 2009, Among 401(k) Participants with Account Balances as of Dec. 31, 2007



Sources: 2007 Account Balances: Tabulations from EBRI/ICI Participant-Directed Retirement Plan Data Collection Project; 2008 and 2009 Account Balances: EBRI estimates. The analysis is based on all participants with account balances at the end of 2007 and contribution information for that year. 23

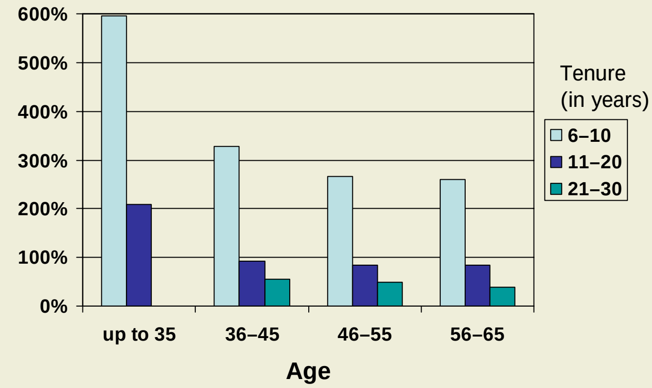
Tenure Matters a Great Deal in Account Growth and Decline

Change In Average Account Balances From Jan. 1, 2008 – Jan. 20, 2009, Among 401(k) Participants with Account Balances as of Dec. 31, 2007

Sources: 2007 Account Balances: Tabulations from EBRI/ICI Participant-Directed Retirement Plan Data Collection Project; 2008 and 2009 Account Balances: EBRI estimates. The analysis is based on all participants with account balances at the end of 2007 and contribution information for that year. 24

Looking At the Long Term Versus the Short Term Makes a Big Difference

Change In Average Account Balances Among a Consistent Sample of 401(k) Participants, by Age and Tenure, Jan. 1, 2000 through Nov. 26, 2008



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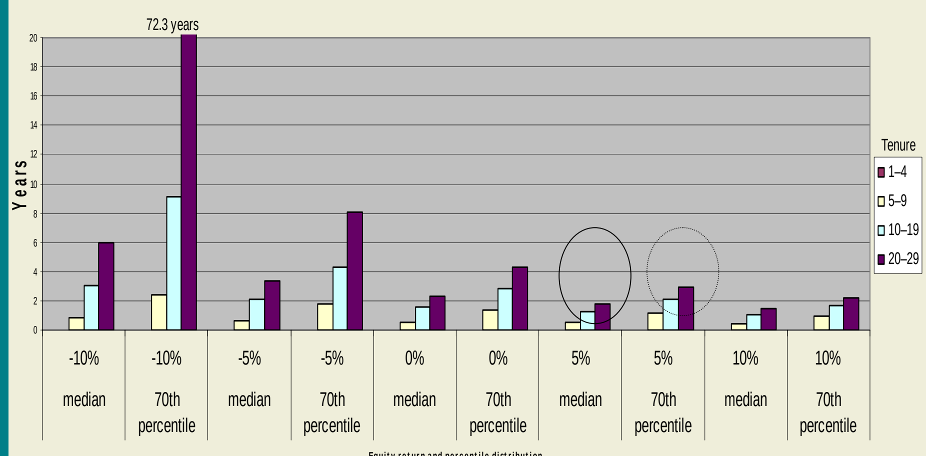
Sources: 1999 and 2006 Account Balances: Tabulations from EBRI/ICI Participant-Directed Retirement Plan Data Collection Project; 2007 and 2008 Account Balances: EBRI estimates. The analysis is based on a consistent sample of 2.2 million participants with account balances at the end of each year from 1999 through 2006.

25

Time Needed to Recover from 2008 401(k) Losses, Using Various Equity Return Assumptions



Source: Author's calculations based on year-end 2007 data from the EBRI/ICI Participant-Directed Retirement Plan Data Collection Project.

NB: Losses are defined as the difference between year-end 2007 and 2008 account balances. This is NOT limited to investment loss.

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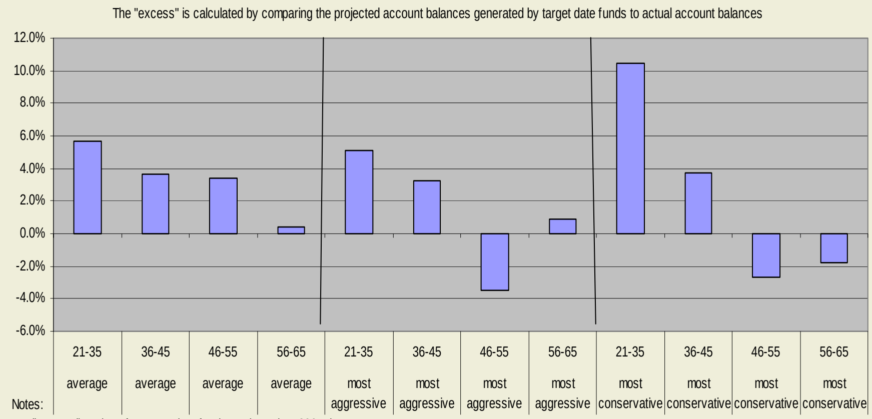
Median “Excess” Returns from Target Date Funds, by Participant Age and Investment Style: 2000–2006



Notes:
1. All asset allocations for target date funds are based on 2007 data.
2. Due to inconsistencies in plan loan data provision, there is a slight negative bias to the computed value of the "excess" returns. This will be quantified at a later stage.
Source: Author's calculations based on consistent sample data from the EBRI/ICI Participant-Directed Retirement Plan Data Collection Project.

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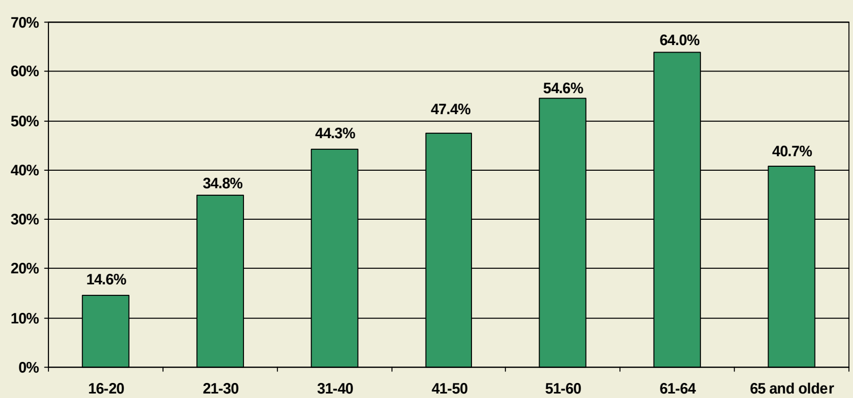
27

Proportion of Lump-Sum Recipients Using Entire Portion of Their Most Recent Distribution Through 2006 for Tax-Qualified Financial Savings,[a] by Age at Time of Most Recent Distribution, Workers Aged 21 and Over



Source: Employee Benefit Research Institute estimates from the 2004 Panel of the Survey of Income and Program Participation Topical Module 7.
[a]includes rollovers to IRAs, individual annuities, and other employment-based retirement plans

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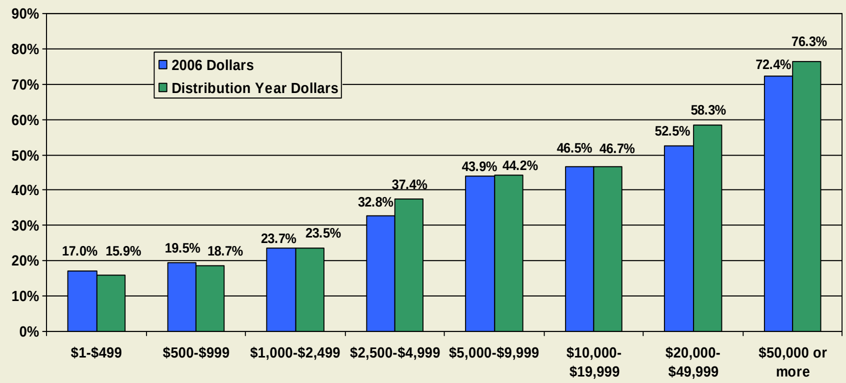
28

Proportion of Lump-Sum Recipients Using Entire Portion of Their Most Recent Distribution Through 2006 for Tax-Qualified Financial Savings,[a] by the Amount of the Most Recent Distribution, Workers Aged 21 and Over



Source: Employee Benefit Research Institute estimates from the 2004 Panel of the Survey of Income and Program Participation Topical Module 7.
[a]includes rollovers to IRAs, individual annuities, and other employment-based retirement plans

Why People Save

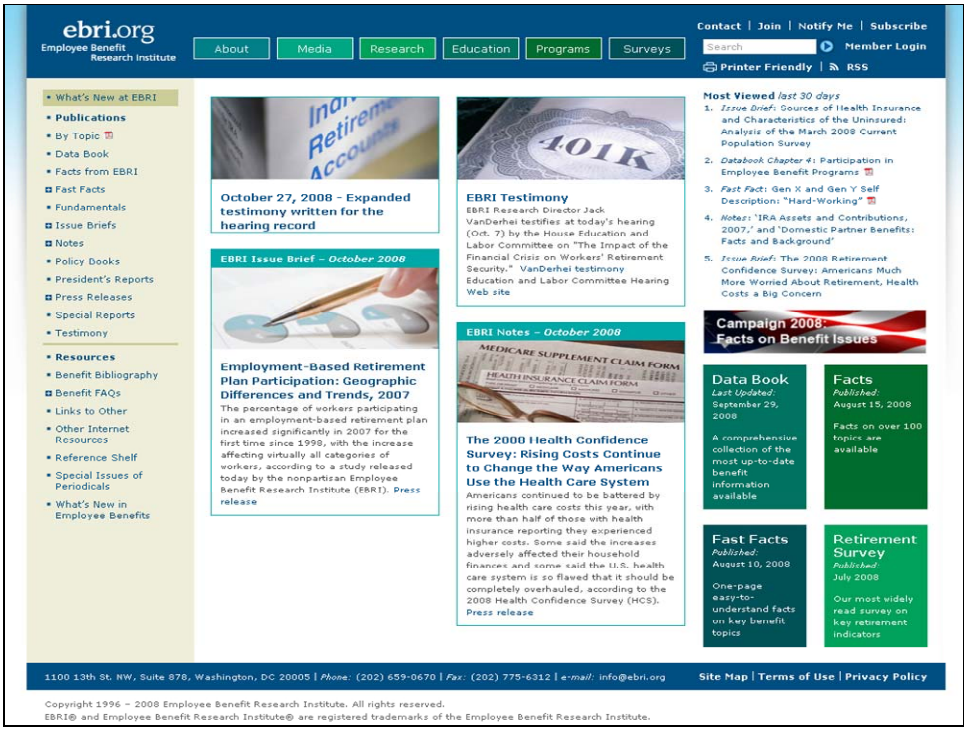
3. Reasons respondents gave as most important for their families' saving, distributed by type of reason, 1998–2007 surveys

Percent

Type of reason	1998	2001	2004	2007
Education	11.0	10.9	11.6	8.4
For the family	4.1	5.1	4.7	5.5
Buying own home	4.4	4.2	5.0	4.2
Purchases	9.7	9.5	7.7	10.0
Retirement	33.0	32.1	34.7	33.9
Liquidity	29.8	31.2	30.0	32.0
Investments	2.0	1.0	1.5	1.6
No particular reason	1.3	1.1	.7	1.1
When asked for a reason, reported do not save	4.9	4.9	4.0	3.3
Total	100	100	100	100

NOTE: See note to table 1 and text note 13.

Source: Federal Reserve, 2009



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Endnotes

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[1] See SSA reports on Income of the elderly at http://www.socialsecurity.gov/policy/docs/statcomps/income_pop55/2006/faq.html There are differences reported based upon differences in data sources. See http://www.socialsecurity.gov/policy/docs/ssb/v67n2/v67n2p55.html in the Social Security Bulletin.

[2] See http://www.dol.gov/ebsa/PDF/2006pensionplanbulletin.PDF and http://www.dol.gov/ebsa/pdf/privatepensionplanbulletinhistoricaltables.pdf and http://www.dol.gov/ebsa/publications/bullet1995/e_4.htm

[3] For the most recent IRS research report (2004 data) see http://www.irs.gov/pub/irs-soi/04inretirebul.pdf For a private report including projections see http://www.ici.org/stats/res/fm-v18n1.pdf

[4] See http://www.pbgc.gov/practitioners/plan-trends-and-statistics/content/page13270.html and the 2008 annual report at http://www.pbgc.gov/about/annreports.html

[5] The salary breakout only includes those participants with complete salary data.

[6] Vanguard found 15 percent of the plans they administer had adopted automatic enrollment by the end of 2007. Eighty percent of these plans had a target date fund as the default investment. See Nessmith and Utkus, 2008 for further information.