“DO-IT-YOURSELF” INVESTORS ARE NOT DOING THEMSELVES A FAVOR

INVESTING RETIREMENT SAVINGS CONTINUES TO CHALLENGE MOST WORKERS.

Many of the responsibilities associated with saving and investing for retirement have shifted from employer to employee. From determining how much to save to cover expenses in retirement to where to invest, it’s easy to see why many participants are overwhelmed by the thought of retirement planning.

Average defined contribution (DC) participant balances reached an all-time high of $84,300 at the end of third quarter 2013*. While Fidelity acknowledges that these balances must continue to increase for participants to reach a more secure retirement, we must also discuss the challenges they face when investing these balances. For many participants, deciding how to invest their retirement assets can be a major undertaking. Admittedly, investing in a way that allows for appropriate risk and growth can be a balancing act that requires skill, will, and time. A recent Fidelity survey[1] of 3,100 NetBenefits® participants found that 77% admitted to not having the time or investment knowledge to be confident in their investment decisions, yet many try to make their own investment choices, and the results may surprise you.

This survey, coupled with participant sentiment, led us to further investigate the utilization and benefits of different investing strategies. Fidelity looked at the investing habits of its 12.6 million participants in 20,900 corporate DC retirement plans, including those participants investing on their own and those who are using a Target Date Fund (TDF) or Workplace Managed Account (WMA) option, to better understand overall asset allocation trends and behaviors.

*Source: Fidelity Asset Management.
65% OF ACTIVELY EMPLOYED PARTICIPANTS ARE CURRENTLY CONSIDERED “DO-IT-YOURSELFERS.”

WHY “DO-IT-YOURSELF” INVESTING MAY NOT BE THE BEST APPROACH

Of participants on our recordkeeping system, 65% are currently considered “do-it-yourselfers” (DIY). These are the participants who are not 100% invested in a TDF or utilizing a WMA. Some of these employees are confident investors who are willing to directly manage their retirement assets and because of this, it’s important to offer a limited yet flexible investment lineup of core options; however, a majority of investors need help. The average age of the DIY population is 48, and the average compensation for actively employed DIYS is $103,300. These participants are expected to take on the responsibility associated with being an investor, including monitoring their account and making investment decisions based on retirement goals, risk tolerance, and market confidence. Yet we see that 87% of DIYS have not made a change to their investment allocation in the past year.

THE NUMBER OF PARTICIPANTS OPTING FOR PROFESSIONAL MANAGEMENT OF THEIR PLAN ASSETS CONTINUES TO INCREASE.

*Consists of participants 100% invested in a Target-Date Fund and those using a managed account option. All numbers as of September 30, 2013.
ARE BABY BOOMERS WHO ARE ON THE BRINK OF RETIREMENT INVESTING TOO AGGRESSIVELY TO MAKE UP FOR PREVIOUS MARKET DOWNTURNS?

How do these participants invest? Many DIY participants tend to gravitate to the two ends of the equity allocation spectrum — taking too much equity risk or not enough — and this tendency may intensify after periods of heightened market volatility. Fidelity data show that at each end of the risk spectrum, 33% hold greater than 90% of their assets in equities while 12% hold less than 10% of their plan assets in equities. In addition, of the 13.1% of this population who have made an exchange in the past year, the average number of exchanges was 2.4.

Digging deeper reveals that 27% of DIY Baby Boomers hold more than 90% of their balance in equities, while 14% hold less than 10% of their assets in equities. Are these individuals who are on the brink of retirement perhaps investing too aggressively to make up for previous market downturns? Others may be taking too conservative an approach in hopes of preventing any future losses, despite the fact that they may have to generate income for 20 years or more.

While some of these participants have opted to manage their portfolios on their own, and others have arrived there by default, many aren’t taking the necessary steps to ensure an appropriate investment strategy. All participants should be reviewing their accounts at least annually, making adjustments to ensure their asset allocation is age appropriate and consistent with their emotional and financial risk tolerance. Some DIY investors surely have factored in their unique financial situations and risk tolerances when determining their asset allocations. However, the above noted survey concludes that those taking no action may lack the skill and time associated with being a DIY investor and may benefit from a more holistic investment strategy such as a TDF or WMA option.
A GUIDED OFFERING – THE “DO IT FOR ME” APPROACH

For participants who appreciate and seek assistance with their investing, there are a few helpful options. Many Plan Sponsors provide access to financial services professionals who can help their participants understand their range of investment choices. Participants can also seek out independent advisors, not affiliated with their plan, to consult. WMAs and TDFs are complementary investment choices for participants with different needs and desired levels of engagement. We believe they should exist as side-by-side options within a plan’s investment menu, one being an actual investment choice (TDF) and the other an investment management service (WMA) using the available funds in a plan, offering a powerful combination of effective asset allocation vehicles for participants.

Target Date Funds

TDFs offer a lifelong investment strategy and can be a good option for many participants, in particular, for participants who are just starting out in their company’s plan, are inexperienced investors, or have straightforward financial needs.

Ninety-eight percent of Fidelity serviced plans offer a TDF option, giving the vast majority of Fidelity’s DC participants access to this investment strategy. In addition, 80% of plans use the TDF as the investment default option. Due to these plan design factors and how TDFs offer an “all-in-one” approach, Fidelity is seeing a large concentration of lower balance, perhaps less experienced, younger participants utilizing the option.

TARGET-DATE FUNDS OFFER AN “ALL IN ONE” APPROACH

This option may be good for participants who are just starting out in their company’s savings plan or who have lower levels of overall retirement savings.

51% of 25–35 year olds rely solely on a target-date fund.

26% of 45–65 year olds rely solely on a target-date fund.

80% of Fidelity clients use a TDF as their investment default option.
While TDF strategies vary, the design of a TDF allows for automatic risk adjustments as the fund approaches its retirement date and beyond, alleviating the need for participants to make exchanges on their own. The average compensation for active participants in this population is $63,800, much lower when compared to the $103,300 average compensation for the DIY population. The high number of younger investors with low salaries contributes to this trend. Those participants solely using a TDF have an average balance of $23,800, and for active participants, an average deferral rate of 6.1%. While 100% of TDF participants have lower employee deferral rates than DIYs, partially driven by Annual Enrollment (AE) default deferral rates, they benefit from professional asset management and tend to take on less investment risk than DIYs.

Because of its use as a default investment option, there may be a perception that participants don’t need to review their investments periodically; however, some participants may outgrow their TDF over time and not know it. Whether it is the growth of pension and other retirement accounts or personal life situations, it is important that investors check back in and make sure an age-based investment option, such as a TDF, still meets their needs.

**Workplace Managed Accounts**

WMAs offer added support for participants with more complex or unique needs. A managed account option can be a good alternative for participants who

- want an investment service that can take their broader financial picture into account, including pension, IRAs and other outside assets
- have more substantial or complex investment considerations
- have a different financial or emotional risk tolerance than the age-based asset allocation reflected in their plan’s TDF.
Because these accounts are professionally managed, participants in a WMA experience investment rebalancing on their behalf at different intervals depending on the service provider. The average age of participants using a WMA is 45, and the average compensation for these active participants is $91,800. These participants defer on average 9.0%, nearly 3% higher than the 6.1% deferred by 100% TDF holders, and have accrued balances of $115,200. Fidelity’s data indicate that this difference in profile is driven by the fact that as participants grow their balance, reach higher salary levels, and encounter more complex financial needs, a managed account option helps to accommodate their individual situation.
While there is no single best way to structure your plan’s investment lineup, offering both TDFs and WMAs in a DC plan can be powerful combination of asset allocation options to help address the diverse needs of all plan participants.

### Participant Profile – TDF vs. WMA

<table>
<thead>
<tr>
<th></th>
<th>TARGET DATE FUND</th>
<th>WORKPLACE MANAGED ACCOUNT</th>
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</thead>
<tbody>
<tr>
<td>Age</td>
<td>40.8</td>
<td>45.4</td>
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<tr>
<td>Compensation*</td>
<td>$63,800</td>
<td>$91,800</td>
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<tr>
<td>Balance</td>
<td>$23,800</td>
<td>$115,200</td>
</tr>
<tr>
<td>Employee Deferral Rate*</td>
<td>6.1%</td>
<td>9.0%</td>
</tr>
</tbody>
</table>

*Includes active participants only.

As the industry acknowledges the rising retirement age and the need for people to work longer, Plan Sponsors should review their plan design to ensure the offerings allow participants to confidently invest and meet their desired growth and income potential. Fidelity recommends the following:

- **Know how your participants are investing for retirement** – Age-appropriate allocation and risk tolerance is crucial to meeting retirement saving goals. You should understand what segment of your population are DIY or “Do It For Me” investors. You may have participants investing on their own who would benefit from a TDF or WMA strategy.
TO HELP PARTICIPANTS INVEST APPROPRIATELY, WE RECOMMEND AN ANNUAL INVESTMENT CHECKUP.

• Promote investment education and guidance – To help participants invest appropriately, Fidelity recommends an annual investment checkup. In the past year, over 330,000 participants have made adjustments to their asset allocation following a guidance interaction. Our participant guidance team can help investors determine their “investor profile” to ensure they are utilizing an approach that is right for them, and then educate the investor on their specific investing strategy.

• Incorporate a Managed Account option – Or promote its adoption if you have already included it in your plan design. Fidelity’s managed account offering, Portfolio Advisory Services at Work (PAS-W), offers participants an individualized investment experience and has a retention rate of 97%.

For additional information on this topic or to discuss plan design options that help lead your participants to retirement readiness, please contact your Fidelity representative.
FOR ADDITIONAL INFORMATION ON THIS TOPIC OR TO DISCUSS PLAN DESIGN OPTIONS THAT HELP LEAD YOUR PARTICIPANTS TO RETIREMENT READINESS, PLEASE CONTACT YOUR FIDELITY REPRESENTATIVE.

*Unless otherwise noted, all data based on Fidelity analysis of 20,900 corporate DC plans (including advisor-sold DC) and 12.6 million participants as of 9/30/2013.

1Quick Questions/Investment Mix microsite launched 8/6/13 to 3,120 targeted Fidelity Workplace Investing participant population; data as of 9/9/13. Participants were asked simple questions to determine their level of engagement or skill with regard to managing their workplace savings. Participant answers to these questions helped categorize them in two buckets: participants who manage their money on their own (23%) and participants who would like help managing their money (77%).

2Fidelity’s “Fourth Plan Sponsor Attitudes Survey” running 2008–2013. The Fidelity survey polled 937 sponsors of plans ranging in size from 25 to 10,000 participants. The plans used a wide variety of recordkeepers, including Fidelity and other firms.

3Fidelity’s analysis of 1.4 million active and terminated participants from 4/1/2012–3/31/2013, who completed a guidance interaction and took action within 90 days of completing the interaction.


Before investing in any mutual fund, consider the investment objectives, risks, charges, and expenses. Contact Fidelity for a prospectus or, if available, a summary prospectus containing this information. Read it carefully.

For Plan Sponsor and investment professional use only. Not for use with plan participants.

Investing involves risk, including the risk of loss.

Target date funds are designed for investors expecting to retire around the year indicated in each fund’s name. The funds are managed to gradually become more conservative over time as they approach the target date. The investment risk of each target date fund changes over time as its asset allocation changes. The funds are subject to the volatility of the financial markets, including that of equity and fixed income investments in the U.S. and abroad, and may be subject to risks associated with investing in high-yield, small-cap, and foreign securities. Principal invested is not guaranteed at any time, including at or after the target dates.

Fidelity Portfolio Advisory Service at Work is a service of Strategic Advisers, Inc., a registered investment adviser and a Fidelity Investments company. This service provides discretionary money management for a fee.

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