When helping employees plan for retirement, it’s fair to say that the more money saved, the better. But how much savings is really enough? The truth is, a host of economic, demographic, and lifestyle variables make this seemingly straightforward question particularly difficult to answer.

Today’s younger workers, for example, are likely to switch jobs more frequently than generations past. According to a recent survey, more than 90% of so-called Millennials (those born between 1977 and 1997, also known as Gen Y) expect to remain in any single job three or fewer years.1 As a result, members of this generation could hold 15 to 20 separate jobs during their working lives. Multiple jobs lead to the accumulation of multiple retirement accounts and a fragmented, clouded picture of progress toward retirement readiness. Moreover, job switching presents workers with a number of unwelcomed opportunities to cash out, causing potentially significant setbacks in the pursuit of financial security after work.

This transient dynamic in the workplace, along with increasing life expectancy, escalating health care costs, and uncertainty about the future of Social Security all portend a looming retirement savings crisis for many. Indeed, an estimated 20% of retirees will exhaust their savings within 10 years of their retirement.2 Despite this sobering outlook, Fidelity believes it’s critical to help participants determine if they are on track towards their retirement savings goals throughout the course of their careers.

Getting on Track and Staying There

Employees attempting to set a course toward a financially secure retirement are looking for help and asking for it explicitly.

Setting up stepwise savings goals for employees and linking it to salary simplifies the process of determining if they are on track. Fidelity advocates that as participants progress through their careers their target multiples, or X’s, of their salaries can be used as the goal for retirement savings. For example, at age 35, this Fidelity guideline suggests a participant should have saved 1X their current salary. Using these multiples makes the concept of saving for retirement a bit easier to comprehend, and therefore, potentially more achievable.
While every individual’s situation will differ greatly based on desired lifestyle in retirement, the average worker can expect to replace 85 percent of his pre-retirement income by saving at least 8 times, or 8X, his ending salary. In order to reach the 8X level by age 67, Fidelity suggests workers should aim to save about 1X their salary by age 35, 3X by age 45, and 5X by age 55. The target amounts or X factor include all retirement savings vehicles.

What is important to note is the savings multiple in comparison to salary. Fidelity analysis suggests that for most individuals the best way of achieving the recommended 8X goal at retirement is to ensure that the multiple target goals are met along the way. These hypothetical guidelines can help employees to meet the suggested income replacement rate of 85% in retirement. Since the 85% or 8X may seem daunting as an end goal, Fidelity believes that breaking the retirement planning process down to an age-based goal — especially for younger workers — will help make the savings process seem more attainable.

This example of targeted savings could be positively or negatively impacted by any number of variables including breaks in employment, working past age 67, changes to the Social Security model, or individual asset allocation decisions. There is no one-size-fits-all number; however, using this method as a guide should generate the necessary questions and conversations to get employees thinking and ultimately prompt them to take action.

Fidelity Age-Based Savings Guidelines
The average worker may replace 85% of his or her pre-retirement income by saving at least 8 times, or 8X, their ending salary. Here’s how much an average worker should have saved at milestone ages to reach 8X:

<table>
<thead>
<tr>
<th>Age</th>
<th>Savings Multiple</th>
</tr>
</thead>
<tbody>
<tr>
<td>35</td>
<td>1X</td>
</tr>
<tr>
<td>45</td>
<td>3X</td>
</tr>
<tr>
<td>55</td>
<td>5X</td>
</tr>
<tr>
<td>67</td>
<td>8X</td>
</tr>
</tbody>
</table>

**Assumptions**
- Saving 6% beginning at age 25 and increasing by 1% a year to 12%
- 3% annual employer contribution
- No breaks in service or contributions; no loans or withdrawals
- Retirement age of 67
- 5.5% average annual hypothetical portfolio growth rate
- 1.5% annual salary increase
- Receives full Social Security benefit
- Living to age 92

Source: Fidelity Investments

This hypothetical chart is for illustrative purposes only. It is not intended to predict or project investment results. Your rate of return may be higher or lower than that shown in the hypothetical illustration above.

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To help employees assess their situation, education programs that explain the importance of debt reduction and the need to establish an emergency fund to avoid the negative impact of loans and hardship withdrawals as well as helping employees avoid interruptions in their savings history are critical to long-term success. Guidance and education via online tools, in-person sessions, or telephone consultations — can also play a critical role in engaging participants and bolstering their retirement readiness.

Leading the Way

While the responsibility for preparing for retirement is a clearly a shared one, plan sponsors can lead the way with innovative, automated, plan design features that get participants saving early, saving more, and — with the help of strategic goal-setting and ongoing guidance — saving enough. The three steps outlined below can help move participants in the right direction.

Step 1 Encourage employees to begin saving as early in their careers as possible. Early participation in a retirement savings plan can have an enormous impact on long-term wealth accumulation. This is especially critical as the DC savings plan will likely be the primary retirement funding vehicle for generations to come.

Step 2 Implement auto-enrollment (AE) with an automatic Annual Increase feature. Not only does AE support the goal of early savings for the youngest workers, it also boosts plan participation rates overall. According to Fidelity’s latest data, the average participation rate in plans with AE is approximately 90%, far higher than the 67% rate in plans without it. Fidelity data also shows a marked increase in savings rates by employees when employers marry a higher default deferral rate with an automatic escalation provision such as an Automatic Increase Program (AIP). Only 6% of participants offered an AIP elect to enroll on their own. Requiring employees to opt out of an AIP rather than opting in exposes a much larger number of participants to the benefits of higher deferral rates.

Step 3 Promote the use of guidance and planning tools. Fidelity’s MyPlan Snapshot® online savings tool allows participants to anticipate how much they need to save for retirement which can help set savings goals. From there, our Income Simulator tool can help them translate their savings into an estimated monthly income stream during retirement.

As we’ve noted, retirement planning is not an easy matter to tackle but plan sponsors can help move their participants in the right direction by following this simplified guideline of target multiples, optimizing plan design and encouraging their employees to seek guidance. For more information on helping participants reach retirement savings sufficiency, contact your Fidelity representative.
Future Workplace “Multiple Generations @ Work” survey of 1,189 employees and 150 managers, June 2012.


85% replacement rate is for a hypothetical average employee and may not factor in all anticipated future living expenses or needs, such as long-term care costs.

All dollars are today’s dollars, not future value.

The age when workers born 1960 or later are eligible for full Social Security benefits.

Fidelity Investments recordkept data of corporate defined contribution (DC) plans of nearly 20,000 plans and 11.8 million participants as of June 30, 2012.

Guidance provided by Fidelity is educational in nature, is not individualized, and is not intended to serve as the primary or sole basis for your investment or tax-planning decisions.

myPlan Snapshot is an educational calculator.

Income Simulator is an educational tool.

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