BlackRock 2011 Defined Contribution Survey Results

Shifting Focus: From Retirement Savings to Retirement Income

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Context

DC plans continue to exhibit strong success in the marketplace

- DC has surpassed DB as the major pool of retirement funds with $4 trillion in assets today
- DC market expected to grow to $5.5 trillion by 2015\(^1\)
- DC plans have become the primary source of savings for most participants\(^2\)
  - In 1983, 12% of participants relied solely on DC plans - that number rose to 63% by 2007\(^2\)

Action predominantly in plan redesign to make them optimal for accumulation

- Deployment of “auto” features
- Primary focus on target date and target risk funds

The Pension Protection Act (PPA) resulted in profound effects toward improving savings and investing

- 59% of plans auto-enroll (doubled since 2006)
  - 72% auto-enroll into target date funds\(^3\)
- 59% of plans auto-escalate
- Participation rates have increased to 80%\(^4\)

45% of participants feel their DC plan will be the **MOST IMPORTANT** source of income in retirement

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1. McKinsey Analysis 2010
3. Hewitt, Survey Results: Hot Topics in Retirement 2010
35 million Americans, the “Early Boomers” are expected to retire in the next 10 years

Most retirees will need an 80 percent income replacement ratio

Social Security is likely to provide 35-40% income replacement\(^1\)

How will retirees fill this gap?

BlackRock’s third annual defined contribution survey was conducted in partnership with Boston Research Group (BRG)

- Goal: compare plan sponsor and participant views on retirement preparation and DC plan structure

Survey sample included:

- 1,000 participants
- 119 plan sponsors

Background

- BRG is a leader in retirement industry market research and a co-founder of the Rand Behavioral Finance Forum
- 10 minute internet panel of verified 401(k), 403(b), profit sharing and stock purchase plan participants who are actively contributing to their plan, conducted in February
- 10 minute internet panel of verified corporate executives who all have responsibility for their employer’s DC plan; conducted in March
  - Representing plans totaling over $525 bn in plan assets and more than 4.1mn plan participants
- A sample of 1,000 observations has a maximum sampling error of +/-2 percentage points at a 95 percent confidence level
Participants see saving as their responsibility, but worry that they are failing

Participants give employers high marks for pre-retirement support, but welcome more guidance

Participants and plan sponsors differ on post-retirement responsibilities, highlighting a critical gap

Participants find secure retirement income attractive and plan sponsors are beginning to respond
Key finding 1:
Participants see saving as their responsibility, but worry that they are failing

Participants overwhelmingly accept responsibility for their retirement preparation

How responsible should YOU, personally, be for helping yourself prepare financially for retirement?

- Very responsible: 92.3%
- Somewhat responsible: 6.8%
- Not very responsible: 0.6%
- Not at all responsible: 0.3%

99% feel responsible for their retirement preparation
Key finding 1: Participants see saving as their responsibility, but worry that they are failing

But few feel confident their preparation will get them the retirement they want

- Only 16% of participants feel they will have enough money to retire on time

**How confident are you that you’ll have enough money to retire at the age you plan to retire at?**

- 50.2%: I’m somewhat confident I can make ends meet
- 25.6%: I’m not so sure how I will make ends meet in retirement
- 16.2%: I’m confident I’ll have enough money to live comfortably in retirement
- 8.0%: I’m worried I’ll never be able to retire
Key finding 1:
Participants see saving as their responsibility, but worry that they are failing

Employers agree that plan participants are not currently well prepared for retirement and are as pessimistic about employees’ prospects as employees themselves:

• Nearly 8 of 10 employers believe that half or fewer of participants in their DC plan will have saved enough money to live comfortably in retirement
### Key Findings

| 1 | Participants see saving as their responsibility, but worry that they are failing |

### Take Action

- Auto-enroll and auto escalate
Key finding 2:
Participants give employers high marks for pre-retirement support, but welcome even more guidance

Employees agree that employers have been generally helpful when it comes to financial preparation for retirement

How helpful has your employer been to you, so far in your financial preparation for retirement?

- 56.2% Very helpful
- 30.1% Somewhat helpful
- 11.5% Not very helpful
- 2.1% Not at all helpful

86% of participants feel plan sponsors have been helpful
Key finding 2: Participants give employers high marks for pre-retirement support, but welcome even more guidance

Participants still want additional education and guidance on the saving phase

How much more information or education and guidance would you like to receive on understanding what 401k investments are best:

<table>
<thead>
<tr>
<th>At my age?</th>
<th>Considering when I plan to retire?</th>
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<tbody>
<tr>
<td>A great deal more</td>
<td>A great deal more</td>
</tr>
<tr>
<td>Somewhat more</td>
<td>Somewhat more</td>
</tr>
<tr>
<td>Just a little more</td>
<td>Just a little more</td>
</tr>
<tr>
<td>None</td>
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</table>

- At my age: 41.8% (A great deal more), 31.5% (Somewhat more), 17.6% (Just a little more), 9.1% (None)
- Considering when I plan to retire: 41.6% (A great deal more), 33.1% (Somewhat more), 17.5% (Just a little more), 7.8% (None)
Key finding 2: Participants give employers high marks for pre-retirement support, but welcome even more guidance

Not only do participants favor target date funds, they also show a favorable response to the idea of being automatically invested

If your employer automatically moved your retirement assets into a target date fund, would your reaction be?

- Very positive: 51.7%
- Somewhat positive: 22.8%
- Somewhat negative: 14.8%
- Very negative: 10.7%

66% would react positively
## Turning insight into action

<table>
<thead>
<tr>
<th>Key Findings</th>
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<td>Participants see saving as their responsibility, but worry that they are failing</td>
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Key Finding 3: Participants and plan sponsors differ on post-retirement responsibilities, highlighting a critical gap

Employers and employees have widely differing opinions regarding how self-reliant the employee should be when preparing for retirement

<table>
<thead>
<tr>
<th>Employees: How helpful is current employer?</th>
<th>Employees say employer not helpful</th>
<th>Employers feel a great deal of responsibility</th>
</tr>
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<tbody>
<tr>
<td>Warning me if I am not saving enough for retirement</td>
<td>60%</td>
<td>19%</td>
</tr>
<tr>
<td>Help me make sure my money lasts all through my retirement</td>
<td>57%</td>
<td>17%</td>
</tr>
<tr>
<td>Educating me on the realities of life in retirement</td>
<td>55%</td>
<td>24%</td>
</tr>
<tr>
<td>Helping me safeguard my assets in retirement</td>
<td>52%</td>
<td>14%</td>
</tr>
<tr>
<td>Helping me make smart investment decisions</td>
<td>49%</td>
<td>35%</td>
</tr>
<tr>
<td>Helping me secure an income stream in retirement</td>
<td>48%</td>
<td>13%</td>
</tr>
<tr>
<td>Helping me to save more</td>
<td>46%</td>
<td>25%</td>
</tr>
<tr>
<td>Educating me on how much money I'll need to accumulate for retirement</td>
<td>43%</td>
<td>51%</td>
</tr>
<tr>
<td>Helping me learn about investing and building my nest egg</td>
<td>40%</td>
<td>51%</td>
</tr>
<tr>
<td>Helping me understand my retirement plan investment options</td>
<td>33%</td>
<td>83%</td>
</tr>
<tr>
<td>Giving me an incentive to save and invest for retirement</td>
<td>21%</td>
<td>56%</td>
</tr>
<tr>
<td>Contributing money to my retirement nest egg</td>
<td>18%</td>
<td>43%</td>
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Key Finding 3:
Participants and plan sponsors differ on post-retirement responsibilities, highlighting a critical gap

Many participants would like to receive more information on “the spending phase”

Employees wanted “a great deal more” information on the following:

- 40% on how to generate secure income in retirement
- 36% on how to make sure their money lasts through retirement
- 36% on how to invest to keep their money safe in retirement
# Turning insight into action

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<td>3 Participants and plan sponsors differ on post-retirement responsibilities, highlighting a critical gap</td>
<td>Evolve your participant communication strategy</td>
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Key finding 4:
Participants find secure retirement income attractive – and plan sponsors are beginning to respond

As life expectancy continues to rise, participants express interest in the possibility of receiving either a stream of retirement income or a combination of income plus a lump sum.

Which of the following would you prefer to receive at retirement?

- A steady stream of income: 61.9%
- A lump sum: 31.7%
- Both: 6.4%

93.6% favor an income solution in their DC plan (a 2% increase from 2010)
Key finding 4: Participants find secure retirement income attractive – and plan sponsors are beginning to respond

Over 50% of plan sponsors are considering adding an income option to their DC plan in the future

What kind of income option are you considering for your plan?

- Target date fund with embedded income: 42.9%
- Managed payout: 25.4%
- In plan annuity: 20.6%
- Guaranteed minimum withdrawal benefit: 7.9%
- No selection: 3.2%

Target date funds with embedded income is the leading choice.
Retirement Security and Annuitization

Obama Administration believes lifetime income options facilitate retirement security

- Initiative to reduce barriers to annuitization of 401(k) plan assets
- DOL / IRS issued a joint release with requests for information on Feb 2, 2010
- RFI addresses education, disclosure, tax rules, selection of annuity providers, 404(c) and QDIAs

The Retirement Security Project

- Released 2 white papers on DC plan annuitization
- Proposed use of annuities as default investment

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Other Recent Developments in DC Plan Annuitization

Two types of legislative proposals

- Encourage annuitization with tax breaks: *Lifetime Pension Annuity for You Act, Retirement Security for Life Act*
- Annual disclosure of what 401(k) plan balance would be worth as annuity: *Lifetime Income Disclosure Act*
Purpose is to investigate 5 focused topics

2 areas of general policy-related interest

- Specific concerns raised by participants
- Alternative designs of in-plan and distribution lifetime income options

3 areas of specific interest

- Fostering “education” to help participants make informed retirement income decisions
- Disclosure of account balances as monthly income streams
- Modifying fiduciary safe harbor for selection of issuer or product
### Key Findings

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Survey Methodology

BlackRock’s third annual defined contribution survey was conducted online by Boston Research Group during March, 2011. Two separate nationwide surveys focused on American workers participating in defined contribution plans and American corporations sponsoring these plans. The 1,000 employees polled participate in a variety of DC plans, including 401(k) plans, 403(b) plans, profit sharing and stock purchase plans. Participants were drawn randomly across all sized plans and from all sized employers with a maximum sampling error of +/– 2 percentage points at a 95% confidence level. The plan sponsor sample of 119 corporate executives was intentionally designed to represent extremely large plans to capture the opinions of thought-leaders among the plan sponsor universe. All have responsibility for their employer’s DC plan, and represent plans with $525 bn in plan assets and 4.1 mn plan participants. 60% of the plans represented have more than $1 bn in participant assets.

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