AMERICA’S RETIREMENT SCORE:
In fair shape — moving closer to green
What’s the state of retirement preparedness in America?

For more than 15 years, Fidelity Investments® has been asking that question. Since 2013, Fidelity’s Retirement Savings Assessment study, which features a unique Retirement Score, has taken a look at the overall state of retirement readiness of American households. This year, the study factors in comprehensive data from 3,182 survey responses, which are then run through the extensive retirement planning platform Fidelity uses every day with customers.

The end result: a single score measuring a household’s ability to cover estimated expenses in retirement that also enables comparative views of preparedness across generations.

So where does America stand in 2018?

The cautionary news: The state of America’s retirement preparedness is in fair condition. Now for the good news: It’s fixable, and we have seen great improvements since the study was first conducted in 2005.
America’s Retirement Score

America’s Retirement Score for the typical American household is 80,* which falls into the yellow “Fair” zone, meaning the typical saver is on target to have 80 percent of the income Fidelity estimates they will need to cover retirement costs, which might mean making some spending cuts in retirement. On the other hand, that is just one point shy of reaching the green “Good” zone.

*America’s retirement score is calculated through the proprietary asset-liability modeling engine of Strategic Advisers, Inc., which has been providing asset allocation, retirement and tax-sensitive investment management services to Fidelity’s individual and institutional clients for nearly two decades.
50% of working American households are likely to be able to cover at least their essential expenses in retirement, based on the Retirement Scores that were calculated.

<table>
<thead>
<tr>
<th>ON TARGET (&gt;95)</th>
<th>GOOD (81-95)</th>
<th>FAIR (65-80)</th>
<th>NEEDS ATTENTION (&lt;65)</th>
</tr>
</thead>
<tbody>
<tr>
<td>On target to cover more than 95% of total estimated expenses</td>
<td>On target for essential expenses, but not discretionary expenses like travel, entertainment, etc.</td>
<td>Not on target, with modest adjustments to planned lifestyle likely</td>
<td>Not on target, with significant adjustments to planned lifestyle likely</td>
</tr>
</tbody>
</table>

32% of households are in DARK GREEN ZONE, up from 31% in 2016
18% of households are in the GREEN ZONE, down from 19% in 2016
22% of households are in the YELLOW ZONE, down from 23% in 2016
28% of households are in the RED ZONE, up from 27% in 2016
KEY FINDINGS

Based on the Retirement Scores, 50% of American households are at risk of not being able to cover essential expenses in retirement.

However, focusing on 3 PREPAREDNESS ACCELERATORS could result in a dramatic improvement:

1. Increase savings
2. Review and adjust asset allocation
3. Delay retirement

Individuals appear to adjust retirement expectations as they near retirement age regarding:

- Working in retirement
- When to begin Social Security benefits
- How active they will be

Paying for health care in retirement is a top concern for pre-retirees, as evidenced by the fact that 41% of households have actually considered postponing retirement to make sure they can afford healthcare in retirement.

This appears to be a larger concern among single women, 53% of whom are considering a delay.
TAKE CONTROL

No matter what your score is, here’s what you can do to help your retirement preparedness:

RAISE SAVINGS:
Even small increases in savings can make a big difference, especially when placed in retirement savings vehicles.

REVIEW YOUR ASSET MIX:
The goal is a portfolio with exposure to various asset classes that can provide the opportunity for growth and outpace inflation, while also providing a certain level of downside protection.

REVISIT YOUR RETIREMENT PLAN:
Working longer means more time to build savings. Furthermore, waiting until eligibility for full Social Security retirement benefits (between 65 and 67) will help maximize your monthly benefits.

Which generation is the most prepared?
It stands to reason those closest to retirement would be, but that doesn’t mean most baby boomers couldn’t improve their situation. The good news: no matter what your age, there are steps you can take to “get to green.”

BABY BOOMERS (AGES 53-71; BORN 1947-65)
- In two years, Boomers have increased their Score by one point, from 85.
- For Boomers, availability of pensions is a big factor.
- While in fairly good shape to cover essentials, they have less time to take actions and fewer options to help move to “dark green.”
- For this generation, the most powerful step: consider working longer.

GEN X (AGES 37-52; BORN 1966-1981)
- Gen X-ers have stayed essentially flat, holding at 77.
- Still, they have 12 years or more to get to green.
- For this generation, the most powerful steps: increase savings and consider working longer.

MILLENNIALS (AGES 25-36; BORN 1982-1992)
- Furthest away from retirement, but in fairly good shape, increasing Score from 76 to 78.
- For first time ever, Millennials caught up with Gen X-ers, in part because of stock market gains in relation to investment time horizon.
- Have benefit of time on their side to save and invest. However, data suggests savings rates are flat and they are not investing as aggressively as they could. Remember, small amounts can turn into larger sums over time, if invested wisely.

*These numbers represent the median Retirement Scores by generation, based on the average age of the household.
HEALTHCARE IN RETIREMENT: A GROWING CONCERN

FIDELITY RESEARCH CONSISTENTLY SHOWS THE COST OF HEALTH CARE IN RETIREMENT IS A TOP CONCERN

The cost of health care in retirement has become an increasingly looming concern for many, and the growing popularity of tax-advantaged health savings accounts (HSA) has become one solution poised to meet this need, for those who have it available as an option.

According to this year’s Retirement Savings Assessment, respondents who report having HSAs tend to have higher Retirement Scores: households with an HSA have a score of 84; those without have a score of 79.

Even more significantly, the connection between having an HSA and having a higher Retirement Score exists regardless of income level.

<table>
<thead>
<tr>
<th>INCOME</th>
<th>HAVE HSA</th>
<th>NO HSA</th>
<th>DIFFERENCE</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;$60K</td>
<td>75</td>
<td>72</td>
<td>+3</td>
</tr>
<tr>
<td>$60K-99K</td>
<td>80</td>
<td>78</td>
<td>+2</td>
</tr>
<tr>
<td>$100K+</td>
<td>92</td>
<td>85</td>
<td>+7</td>
</tr>
</tbody>
</table>

Although this does not provide definitive proof of a causal relationship between having an HSA and one’s Retirement Score, the evidence strongly suggests taking advantage of this savings vehicle, if you have access to one, is good for your overall financial position and indicative of good savings habits, regardless of income level.

According to the RSA data, 91% of working American households who responded to the survey say they have health care coverage—the vast majority (88%) through an employer. About one-third (34%) of the total insured say they have a high deductible plan and 58% of those who have opened an HSA.
HAVING AN ADVISOR CAN HELP WITH RETIREMENT PREPAREDNESS

22% OF HOUSEHOLDS HAVE A RELATIONSHIP WITH A PAID PROFESSIONAL ADVISOR.

As might be expected, households who have an advisor relationship also have a higher Retirement Score (86 vs 78).

Notably though, even when controlling for income, advisor users still have a higher Retirement Score than those without one.

<table>
<thead>
<tr>
<th>INCOME</th>
<th>ADVISOR</th>
<th>NO ADVISOR</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;$60K</td>
<td>83</td>
<td>71</td>
</tr>
<tr>
<td>$60K-99K</td>
<td>81</td>
<td>78</td>
</tr>
<tr>
<td>$100K+</td>
<td>89</td>
<td>85</td>
</tr>
</tbody>
</table>

Perhaps most significantly, the biggest beneficiaries of an advisor relationship appear to be those in the lower income group—who see a 17% boost in preparedness.

While an absolute causal relationship is not possible to prove, it may be that households that use an advisor are better planners. For example, we also know that advisor users are also more likely to be taking into account the cost of health care in retirement and saving for it (66% vs 47%).

Not surprising, this increases with age and income level (just 12% of people in their twenties use an advisor vs. 35% in their 60s).
The study reveals people are not so good at predicting how prepared they actually are in retirement. Overall 61% of households believe they will have enough money to maintain the lifestyle they want in retirement – well above the 50% Fidelity considers to be good or on target.

31% of those Fidelity considers good or on target, with a retirement score over 81, believe they are not at all on target or a bit off.

40% of households Fidelity considers “needing attention,” with a retirement score under 65, believe they are on target to cover all or essential expenses.

The study also reveals some uncertainty in exactly what it takes to save for retirement:

<table>
<thead>
<tr>
<th>Statement</th>
<th>% MILLENNIALS WHO AGREE</th>
<th>% GEN X WHO AGREE</th>
<th>% BOOMERS WHO AGREE</th>
</tr>
</thead>
<tbody>
<tr>
<td>I know how much I need to be saving to meet my expenses in retirement</td>
<td>44%</td>
<td>51%</td>
<td>61%</td>
</tr>
<tr>
<td>I will have enough money in retirement to maintain the lifestyle I want</td>
<td>64%</td>
<td>57%</td>
<td>62%</td>
</tr>
<tr>
<td>Retirement planning is too complicated to do on my own</td>
<td>41%</td>
<td>42%</td>
<td>43%</td>
</tr>
</tbody>
</table>
It’s no surprise that retirement savings increase along with age, and boomers have the millennials beat on this count. Savings rates (including any employer match) also increase with age but not as dramatically. In fact, even the median boomer savings rate of 9.9% is well below Fidelity’s recommended savings rate of at least 15%.

**Breakdown of Respondents by Generation**

- **All**: 8.8% total savings rate
- **Millennials (25-36)**: 7.5% total savings rate
- **Gen X (37-52)**: 8.6% total savings rate
- **Boomers (53-71)**: 9.9% total savings rate

*Includes employer contributions.*
While personal risk tolerance is important to factor in, **millennials may be playing it a little too safe** when investing their retirement savings.

**MORE THAN**

**4 IN 10 MILLENNIALS**

are investing more conservatively than what would be considered appropriate for someone with this amount of time before retirement

<table>
<thead>
<tr>
<th>EQUITY ALLOCATION*</th>
<th>ALL</th>
<th>MILLENNIALS</th>
<th>GEN X</th>
<th>BOOMERS</th>
</tr>
</thead>
<tbody>
<tr>
<td>AGGRESSIVE</td>
<td>7%</td>
<td>0%</td>
<td>0%</td>
<td>22%</td>
</tr>
<tr>
<td>LIFE CYCLE</td>
<td>16%</td>
<td>20%</td>
<td>16%</td>
<td>14%</td>
</tr>
<tr>
<td>ON TRACK</td>
<td>42%</td>
<td>38%</td>
<td>46%</td>
<td>42%</td>
</tr>
<tr>
<td>CONSERVATIVE</td>
<td>34%</td>
<td>42%</td>
<td>38%</td>
<td>23%</td>
</tr>
</tbody>
</table>

*This is based on what Fidelity considers to be an appropriate mix, based on data reported in the Retirement Savings Assessment about an individual’s equity allocation distribution that is placed into four categories based on that person’s age. Those categories are “On target”: within 25% of target date equity allocation; “Aggressive”: an equity percentage more than 25% above the age-appropriate target equity; “Conservative”: an equity percentage less than 25% below the age-appropriate equity target; and a category for assets held in a Target Date Fund.

For “Asset Allocation” purposes, the investor’s current age and equity holdings are compared with an example table containing age-based equity holding percentages based on an equity glide path. The Fidelity Equity Glide Path is an example we use for this measure and is a range of equity allocations that may be generally appropriate for many investors saving for retirement and planning to retire around ages 65 to 67. It is designed to become more conservative as participants approach retirement and beyond. The glide path begins with 90% equity holdings within a retirement portfolio at age 25 continuing down to 24% equity holdings at age 93. Equities are defined as domestic equity, international equity, company stock, and the equity portion of blended investment options. On target with respect to asset allocation is determined by being within 25% (+ or -) of the Fidelity Equity Glide Path.
DISAPPEARING PENSIONS

From even just two years ago, fewer households are expecting a pension, particularly among those closest to retirement. 55% of Boomers now expect a pension, down from 62% in 2016.

![Table image]

In contrast to or perhaps in response to the expected decrease in pension income, more households are expecting to work at least part time in retirement. 56% of Boomers say they will work, up from 47% in 2016.

![Table image]
The findings in this study are the culmination of a year-long research project with Strategic Advisers, Inc.—a registered investment advisor and a Fidelity Investments company—that analyzed the overall retirement preparedness of American households based on data such as workplace and individual savings accounts, Social Security benefits, pension benefits, inheritances, home equity and business ownership. The analysis for working Americans projects the retirement income for the average household, compared to projected income need, and models the estimated effect of specific steps to help improve preparedness based on the anticipated length of retirement.

Data for the Fidelity Investments Retirement Savings Assessment were collected through a national online survey of 3,182 working households earning at least $20,000 annually with respondents age 25 to 74, from September 14 through October 3, 2017. All respondents expect to retire at some point and have already started saving for retirement. Data collection was completed by GfK Public Affairs and Corporate Communication using GfK’s KnowledgePanel®, a nationally-representative online panel. The responses were benchmarked and weighted against the 2016 Current Population Survey by the Bureau of Labor Statistics. GfK Public Affairs and Corporate Communication is an independent research firm not affiliated with Fidelity Investments. Fidelity Investments was not identified as the survey sponsor.

Fidelity’s Retirement Score is calculated through the proprietary asset-liability modeling engine of Strategic Advisers, Inc., which has been providing asset allocation, retirement and tax-sensitive investment management services to Fidelity’s individual and institutional clients for two decades. Of note, Fidelity continually enhances and evolves the retirement readiness methodology, guidance tools and product offerings. This year’s survey processing include enhancements including, but not limited to, demographic weighting, retirement income projections and social security estimates. To enable a direct comparison, the previously-reported Retirement Score results were recalculated using the enhanced methodology.

This analysis is for educational purposes and does not reflect actual investment results. An investor’s actual account balance and ability to withdraw assets during retirement at any point in the future will be determined by the contributions that have been made, any plan or account activity, and any investment gains or losses that may occur.
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Fidelity’s mission is to inspire better futures and deliver better outcomes for the customers and businesses we serve. With assets under administration of $6.8 trillion, including managed assets of $2.4 trillion as of December 30, 2017, we focus on meeting the unique needs of a diverse set of customers: helping more than 26 million people invest their own life savings, 23,000 businesses manage employee benefit programs, as well as providing more than 12,500 financial advisory firms with investment and technology solutions to invest their own clients’ money. Privately held for 70 years, Fidelity employs more than 40,000 associates who are focused on the long-term success of our customers. For more information about Fidelity Investments, visit www.fidelity.com/about.

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