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BUILDING FUTURES VIII¹

Highlights of Findings

1. Auto Solutions continue to prove highly effective in combating employee inertia, demonstrating the potential that changes to plan design could have on improving retirement readiness over the long-term.

- With the help of **Automatic Enrollment**, participation rates increased by 28 percentage points (from 53% to 81%) for AE eligible employees in plans that offered the feature versus eligible employees in plans without it. The lift for younger, lower-compensated employees was even greater, with participation rates increasing by more than 50 percentage points.
- Among continuous participants, deferral rates increased significantly more for those in **Automatic Increase Programs** (from 7.1% in 2005 to 8.3% in 2006) versus non-AIP participants (from 7.3% in 2005 to 7.6% in 2006).
- **Automatic default to lifecycle funds** has helped drive more than twice as many new participants into an age-based investment portfolio. In plans utilizing Freedom Funds, 58% of new participants held Freedom Funds when they were the default as compared to 26% when they were not the default.
- While auto adoption continues to rise, the actual number of corporate defined contribution (DC) plans utilizing auto programs is relatively small. In 2006, 301 plans utilized Automatic Enrollment (up 97% from 153 plans in 2005). 7,315 plans in 2006 offered Automatic Increase Programs (up 19% from 6,136 plans in 2005) but only 21 of those plans automatically increased their employees' contributions (or had negative election). The other 7,294 plans offered an increase program where the employees were required to opt-in. 1,743 plans offered automatic default to lifecycle funds (up 173% from 639 plans in 2005). Fidelity is on track to achieve greater growth and penetration of all three auto features in 2007.
- According to Fidelity's Retirement Income Indicator, the full penetration of all three Auto Solutions for all eligible employees would allow the average workplace savings plan to nearly double its employees' retirement readiness.

2. Although workplace savings plans are increasingly becoming the primary source of income for more and more retirees, not enough Americans are enrolling.

- When all plans are counted equally, the average plan participation rate (counting all plans' rates equally) went down slightly to 63.1%, from 63.4% in 2005. When all eligible employees are counted equally, the average participation rate went down to 56.6%, from 56.9% in 2005
- Participation rates varied significantly by generation, as follows:
 - 67.5% for Baby Boomers (b. 1946-1964), up from 66.6% in 2005;

¹ Data as of 12/31/06 unless otherwise stated. Percentage changes were calculated using the actual nonrounded underlying figures and are accurate. Historic 2005 figures for participation and deferral rates were restated slightly relative to what was published in *Building Futures VII* to incorporate a larger set of eligible employee data; the actual impact was small and trends were unchanged.

- 58.2% for Gen Xers (b. 1965-1978), up from 56.5% in 2005; and
 - 28.6% for Gen Yers (b. 1979-1991), up from 27.2% in 2005.
- For those employees who were eligible to contribute to their plan for two consecutive years, participation rates increased by more than three percentage points, from 62.7% in 2005 to 65.8% in 2006. For those employees who were eligible to contribute to their plan throughout the 2002-2006 period, participation rates increased from 71.3% in 2002 to 77.6% in 2006.

3. Overall, average 401(k) balances increased in 2006, fueled by positive investment performance² but dampened by the impact of new and departing plan participants.

- Average account balances for all participants increased 6.5% to \$66,500, from \$62,500 in 2005. New participant account balances were much lower than departing participant balances, which dampened the overall average.
- Excluding this impact, continuous participants – those who stayed in their plan from year-end 2005 to year-end 2006 – achieved an average growth of 20% in their accounts, with their average account balances growing from \$65,300 in 2005 to \$78,500 in 2006. Of this increase, \$4,800 (36%) was due to net contributions and the remaining \$8,400 (64%) was due to market action. Five-year continuous participants, those who stayed in their plan from year-end 2001 to year-end 2006, had average account balances of \$111,000, up 88% from \$59,000 in 2001.
- As with participation and deferral rates, average account balances varied by generation, as follows:
 - \$89,000 for Baby Boomers, up 11% from \$80,000 in 2005;
 - \$34,000 for Gen Xers, up 17% from \$29,000 in 2005; and
 - \$6,000 for Gen Yers, up 23% from \$5,000 in 2005.
- As in prior years, median account balances continued to be substantially lower than the average balances because of the disproportionate impact of high balance participants. Overall, the median balance for all participants was \$22,100, flat with \$22,300 in 2005. Median account balances for each of the groups noted above were as follows:
 - \$32,000 for those who stayed in their plan from year-end 2005 to year-end 2006, up 30% from \$25,000 in 2005;
 - \$59,000 for those who stayed in their plan from year-end 2001 to year-end 2006, up 165% from \$22,000 in 2001;
 - \$38,000 for Baby Boomers, up 7% from \$36,000 in 2005;
 - \$15,000 for Gen Xers, up 10% from \$14,000 in 2005; and
 - \$2,100 for Gen Yers, up 21% from \$1,700 in 2005.

4. Stagnant deferral rates - well below the 10% to 15% of pre-tax salary Fidelity believes employees should contribute - continue to threaten employees' retirement readiness and underscore the need to save more.

- The average overall deferral rate was 7.0%, unchanged from the 2005 rate.
- Again, deferral rates varied by generation, as follows:
 - 7.7% for Baby Boomers, up from 7.5% in 2005;
 - 6.2% for Gen Xers, unchanged from the 2005 rate;
 - 4.6% for Gen Yers, down from 4.8% in 2005.
- Deferral rates were up for those employees who contributed to their plans for two consecutive years, growing from 7.3% in 2005 to 7.6% in 2006. Deferral rates were up for employees who contributed to their plans for five consecutive years growing from 7.1% in 2002 to 7.9% in 2006.

² From 12/31/05 to 12/31/06, investment returns across commonly used market indices moved higher. For example, the cumulative total return for this one year period was 16% for the S&P 500® Index, 4% for the Lehman Brothers® Aggregate Bond Index, and 5% for the Citigroup 3-Month Treasury Bill Index.

- Most employees, however, did not maximize the savings potential of their workplace plans, with less than one in ten (9.2%) contributing up to the annual limit, which was \$15,000 in 2006.

5. *Asset allocation remains a challenge for most employees.*

- 74% of participants appear to have had their savings inappropriately allocated, with 22% holding all equities and 13% holding no equity.
- On average, employees held 3.8 investment options, while 19% held their savings in a single non-diversified investment option.
- 85% did not rebalance their portfolio in 2006. Of those with balances for five or more years, 60% did not rebalance in the past five years.

6. *Building Futures VIII also examined trends within Roth 401(k) and Stock Plan Services as we continue to identify new/other sources of income upon retirement.*

- Fidelity began offering **Roth 401(k)s** in January of 2006, and over the course of the year, Roth 401(k) assets in corporate DC plans grew to \$50 million.
 - More than 20,000 employees contributed, with a median age of 42.
 - The average Roth 401(k) deferral rate was 8% and 43% of those did not contribute to other pre-tax and/or after-tax sources in their workplace savings plan.
- Looking beyond corporate DC plans, Fidelity has offered **Stock Plan Services** since 2001, and has experienced remarkable growth in the equity compensation outsourcing arena.
 - Fidelity administers more than 350 stock plan programs, representing nearly 1 million participants in 97 countries.
 - Approximately 80% of Fidelity's Stock Plan Services clients also rely on Fidelity for workplace savings recordkeeping services.
 - Fidelity supports a variety of programs, ranging from broad-based plans to executive-only plans, including Stock Option Plans, Restricted Stock Award/Restricted Stock Units, Stock Appreciation Rights and Employee Stock Purchase Plans. Stock Option Plans are the most common equity compensation vehicle, representing more than a third of all plans and nearly half of participants. Fidelity clients continue to increase their employee programs where 85% of clients offer more than one equity compensation vehicle.
 - More than 50% of Fidelity's Stock Plan Service clients have more than 10,000 employees, and 68% of its client base employs international participants.

About Building Futures VIII

Building Futures is Fidelity Investments' annual report on the state of the 401(k) industry. Volume VIII provides a comprehensive analysis of over 10 million participants in nearly 13,000 corporate defined contribution (DC) plans administered by Fidelity at the end of 2006, representing \$674 billion in assets. The full report will be published this fall.

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