



INVESTOR INSIGHTS SERIES

# RUNNING ON EMPTY

Attitudes and Actions of Defined  
Contribution Plan Participants



## EXECUTIVE SUMMARY

Retirement security is a critical goal for millions of Americans, but one that comes with significant challenges: Fewer employers today offer traditional defined benefit pension plans. Some policy experts say Social Security funding may not be sustainable over the long term. And individuals feel increasing responsibility to fund retirement on their own.

Our 2016 Survey of U.S. Defined Contribution Plan Participants finds that most plan participants understand in principle what needs to be done to fund retirement. In practice, many say short-term financial pressures such as college loans and monthly bills keep them from saving more.

Participants tell us they have a general idea of what it will take to retire. On average, they believe they will retire at age 63 and estimate that they will need to accumulate almost \$880,000 to fund a retirement they think will last more than 20 years. Despite their ability to estimate what retirement will add up to, we also find that their current contribution rates could leave them short of their goals.

In this, our third annual defined contribution survey, we examine the mindset of workers as they look at saving for retirement as well as their actions. We also offer up an assessment of what individuals, employers and policy makers can do to address retirement security.

- **Attitudes:** Workers know they need to save but they are challenged. Many think government mandates may be needed to get individuals on the right track. In terms of getting their savings plans in gear, we find that company matches and tax deferral are valuable incentives. We also find that individuals say they would be likely to contribute more to their plan if they had access to ESG investments that more closely reflect their personal values.
- **Actions:** Incentives are important because we see many individuals are simply not saving enough. About 65% of participants report contributing between 1% and 6.99% to their retirement plan. Total savings are further impacted by the large numbers of workers who take loans, or make withdrawals from their accounts.
- **Assessments:** Defined contribution plans have been an effective tool for pursuing retirement security but individuals, employers and policy makers are all stakeholders in improving the potential for success. Deeper engagement from participants, to effective plan design by employers, to continued tax incentives from government, are all critical factors in success.

Retirement security is a worthy pursuit. We believe individuals have many tools at their disposal, but what may be needed most is clear education on how to use them to meet personal goals.





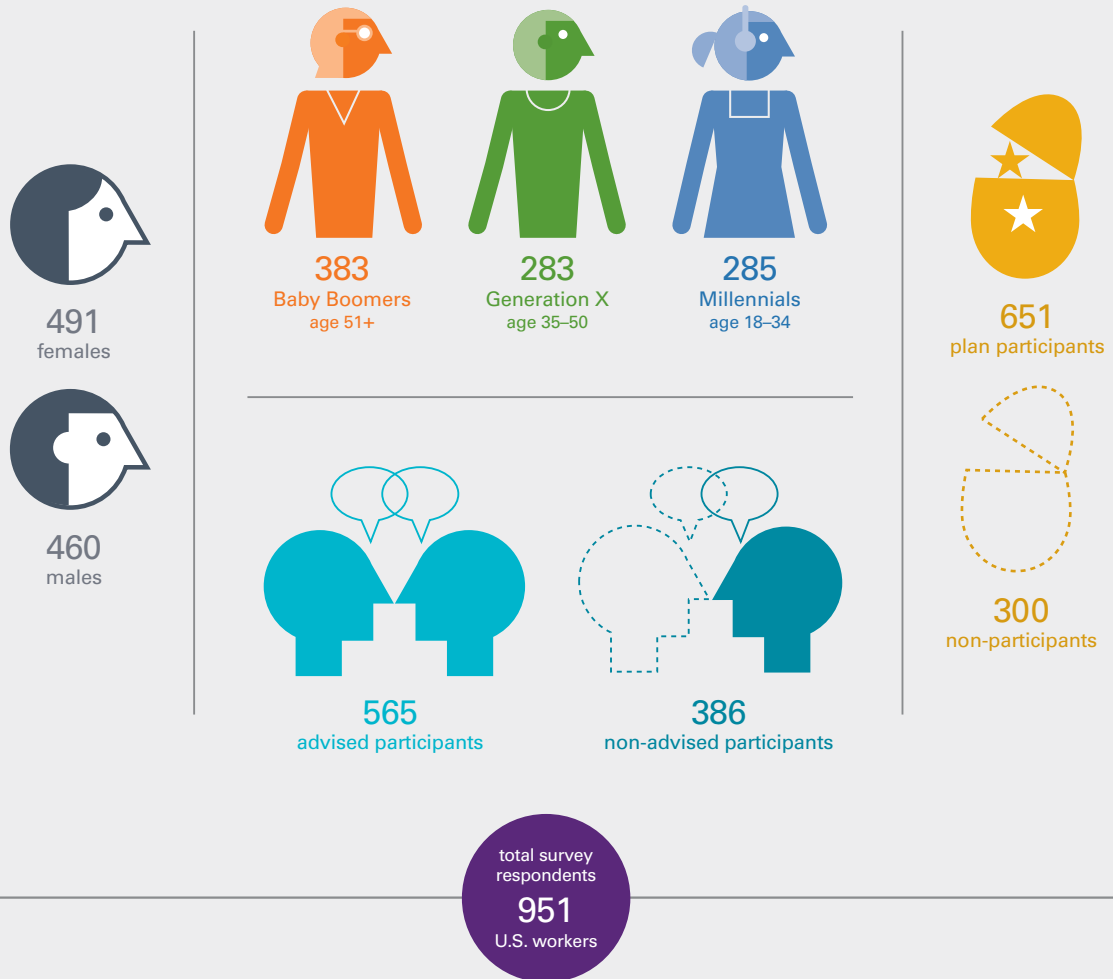
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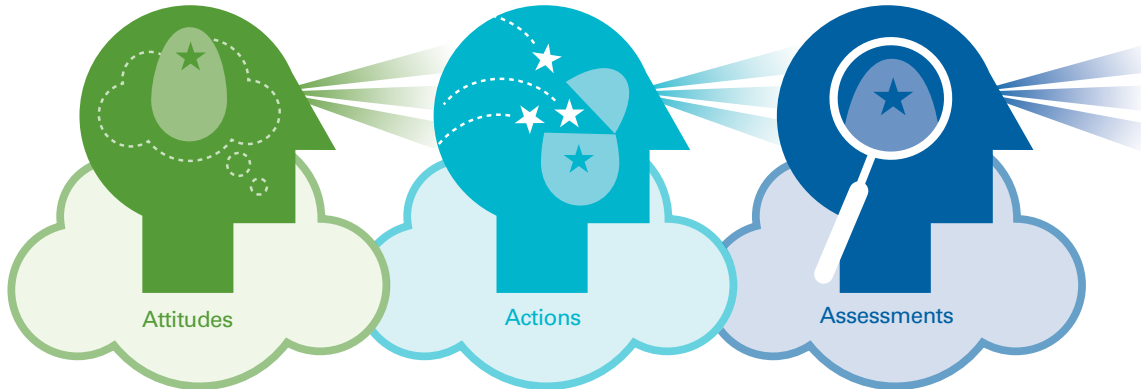
## 2016 SURVEY OF DEFINED CONTRIBUTION PARTICIPANTS

Survey respondent breakdown



# Running on Empty

## Attitudes and Actions of Defined Contribution Plan Participants



Retirement is the top financial priority for three-quarters of investors in the U.S.<sup>1</sup> But the road to retirement can be a bumpy ride that requires a steady hand at the wheel. Workers could once count on an employer pension, Social Security benefits, and personal savings to provide a stable ride through retirement, but today, individuals know they must be more self-reliant.

One reason individuals have greater responsibility in funding retirement is the rise of defined contribution plans, which have replaced defined benefit pension plans as the vehicle of choice for workplace retirement plans. Much has gone into their design and development, and valuable options like auto-enrollment and auto-escalation have been added to enhance performance. Now, four decades after the 401(k) plan was created, American workers have been handed the keys to a fully loaded vehicle. But few workers have been given driving lessons, and as a result, there is little gas in the tank to fuel a financially secure retirement.

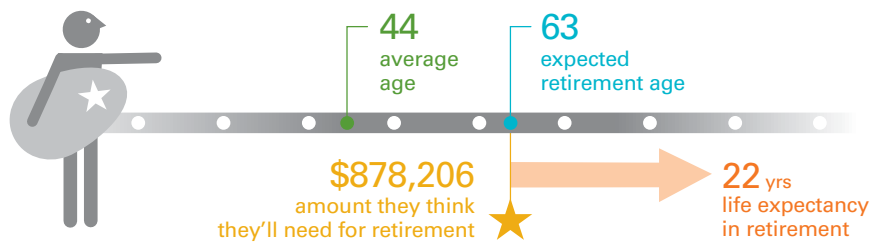
Our 2016 Survey of Defined Contribution Plan Participants finds 86% of American workers believe that retirement funding is increasingly their personal responsibility. But among the 951 individuals who have access to a defined contribution plan, we see that many struggle to fully engage with their employers' retirement savings plans and maximize their chances of success.

For some the challenge is getting past short-term financial stresses to put money away for the long-term retirement goals. For others, it's understanding how to leverage the full complement of features within their plan. For a majority of plan participants, the anxiety about meeting funding goals is so high that they are willing to accept government mandates on retirement savings.

“American workers have been handed the keys to a fully loaded vehicle. But few workers have been given driving lessons, and as a result, there is little gas in the tank to fuel a financially secure retirement.”

<sup>1</sup> Natixis Global Asset Management, Global Survey of Individual Investors compiled by CoreData Research, February 2016. Survey included 7,100 investors in 21 countries of which 750 were in the U.S and 300 were from Australia.

## THE AVERAGE SURVEY RESPONDENT



### Do the numbers add up?

Making the math work for retirement can be difficult. Nine in ten of our respondents expect they will retire. On average they see themselves retiring at age 63 and living for 22 years in retirement. About half of those we spoke with say they have an idea of how much they will need to save for retirement. On average, plan participants say that number is \$878,206. But do they have the tools and discipline needed to reach this destination?

In this, our third annual Survey of Defined Contribution Plan Participants, we look at plan participation from three unique views with the goal of providing greater insight into how to best address the retirement funding gap facing millions of Americans today.

- Attitudes:** U.S. workers clearly see the need to save for retirement, but want help. Key incentives, such as matching contributions from their employer and federal tax deferral on their individual contributions, are critical tools for driving participation, but immediate access to plans upon employment and investment selections more closely aligned to their personal values may help move employees from passively saving in their company's plan to becoming active and engaged participants who invest in their own retirement plans.
- Actions:** While participants say they have a goal amount in mind for their retirement savings, many are not on track for meeting self-stated savings targets. Savings rates are low. Competition from college loans, personal debt and other financial obligations prevent many from saving at a rate that will allow them to meet their goals or even participating in their company's plan. If they do participate, many take loans and distributions from their plan balance or lose track of assets when changing jobs. All these factors impede their ability to amass the funds needed to ensure a secure retirement.
- Assessments:** Participants are right when they assume that a greater share of the burden of funding retirement falls on their shoulders. But achieving retirement security is more than a personal responsibility. Public policy makers, employers and individuals all play a part in ensuring that American workers are able to retire with dignity.

“ About half of those we spoke with say they have an idea of how much they will need to save for retirement.

Defined contribution plans have played a central role in retirement savings in the U.S. for four decades, but workers still struggle to take full advantage of these powerful savings tools. We think that looking closely at the barriers and understanding the motivations to save and the savings behaviors of participants will shed light on the best path toward maximizing the number of workers who participate and the depth of their participation.



ATTITUDES

# In theory, participants want to do the right thing



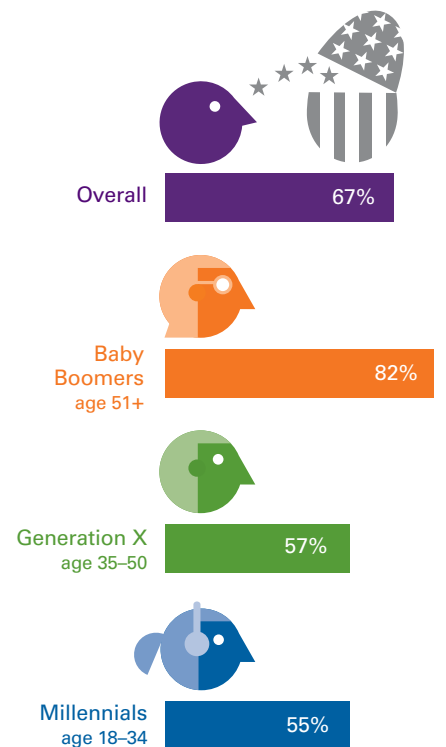
Traditionally, retirement income is built on a three-legged stool that combines a company pension with Social Security benefits and personal savings. But demographics and economics have left that stool on shaky ground. The move from defined benefit plans to defined contribution plans has allowed employers to alleviate long-term funding liabilities, but it has also placed greater responsibility on employees to fund retirement. An aging population, led by 75 million Baby Boomers who are in or nearing retirement, stresses the ability of the pay-as-you-go Social Security system to provide adequate benefits to all retirees. And a high cost of living in the U.S. (ranking 14th in the 2016 GRI)\* limits the ability of many individuals to save for retirement.

Key among issues shaping the attitudes of plan participants is the funding status of the U.S. Social Security system. In its 2016 annual report to Congress, the Social Security Board of Trustees stated that Social Security is fully funded until 2034; in the years that follow, it is estimated that the system will operate at about three-quarters funding. Plan participants are well aware of the Social Security funding gap and it is likely to impact their motivations for participating in their employers' plan.

## Not so secure on Social Security

Overall two-thirds of participants believe Social Security benefits will be available to them when they retire. But this average number can be misleading as we see a significant generational split in the views of our respondents. Baby Boomers, who are the here and now for Social Security, have a strong belief that Social Security benefits will be available to them in retirement. But where 82% of this generation is positive about the prospects for government retirement benefits, just 57% of Generation X and 55% of Millennial participants have the same faith.

### THOSE WHO BELIEVE SOCIAL SECURITY WILL STILL BE AVAILABLE WHEN THEY RETIRE



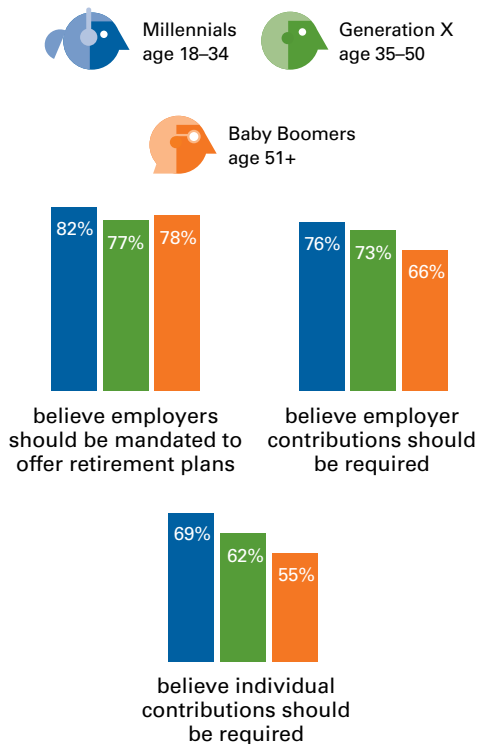
\*The Global Retirement Index (GRI) is a multi-dimensional index developed by Natixis Global Asset Management and CoreData Research to examine the factors that drive retirement security and to provide a comparison tool for best practices in retirement policy. The index incorporates 18 performance indicators, grouped into four thematic sub-indices, which have been calculated on the basis of reliable data from a range of international organizations and academic sources. It takes into account the particular characteristics of the older demographic retiree group in order to assess and compare the level of retirement security in different countries around the world.

Despite seeing that the traditional government benefits platform may no longer be sustainable, many of our survey respondents still believe government to be a critical partner in achieving retirement security. Slightly more than half say it's government's responsibility to provide universal access to retirement savings plans.

### Go ahead, make me save

The anxiety over meeting retirement funding goals is so strong among both plan participants and non-participants that a majority favor retirement savings mandates. Eight in ten believe there should be a government mandate requiring employers to offer workplace retirement savings plans. Three-quarters believe there should be a mandate requiring employer matching contributions, and six in ten go so far as to say there should be a mandate requiring individuals to make retirement plan contributions.

#### MANDATED RETIREMENT SOLUTIONS: SPLIT ALONG GENERATIONAL LINES



Recognizing the reluctance of many Americans to accept mandated solutions to issues such as healthcare, it is important to note distinct generational differences in opinion on this topic. Millennial participants show significant interest in mandated solutions. Three-quarters of this cohort say they believe employers should be required to make matching contributions, and seven in ten believe individuals should be mandated to make contributions. Social Security funding is likely to be reduced well before they reach retirement age; it's not surprising that these young workers would look for a more pragmatic solution to the funding gap.

Although Baby Boomers generally believe mandated solutions will help ensure retirement security, they are less enthusiastic with 66% favoring required contributions from employers and just 55% favoring required individual contributions. We find the greatest difference of opinion when it comes to the responsibility of the government to provide universal access to retirement savings; 64% of Millennials believe this is the role of government, opposed to just 44% of Baby Boomers.

Mandated retirement savings is a concept that has been implemented in other countries, most notably Australia's Superannuation program and New Zealand's Kiwi Saver. Both require employer and employee contributions. In our 2016 Global Survey of Individual Investors we found significant differences between Australians and Americans in their attitudes toward their increased personal responsibility for retirement funding. Americans most frequently said they felt "unprepared," "resigned," and "resentful." Australians most frequently said they felt "content," "empowered," and "optimistic."\*

### Incentives critical to driving participation

Whether it is a company match or favorable tax treatment for employee contributions, financial incentives play a critical role in shaping the savings habits of plan participants. Among those participants included in our survey 63% said the company match is their number one reason for participating. The effect of matching contributions cannot be underestimated. Seven in ten participants also say that they would contribute more if their employer offered a larger match.

\* Natixis Global Asset Management, Global Survey of Individual Investors compiled by CoreData Research, February 2016. Survey included 7,100 investors in 21 countries of which 750 were in the U.S and 300 were from Australia.

For our participant population, the employer matching serves as positive reinforcement to encourage retirement savings. When asked how they would respond to an increase in matching contributions, 65% said they would increase personal contributions. If the match were decreased, only 20% said they would decrease their personal contributions.

While the employer match is listed as participants' top savings incentive, it is closely followed by tax-deferred personal contributions. More than half of participants rank tax benefits among their top reasons for saving in a defined contribution plan. In recent years, there have been policy discussions in Washington debating whether this key savings incentive should be eliminated. But removing this incentive could prove detrimental to ensuring retirement security for the millions of plan participants in America.

“ More than half of participants rank tax benefits among their top reasons for saving in a defined contribution plan.

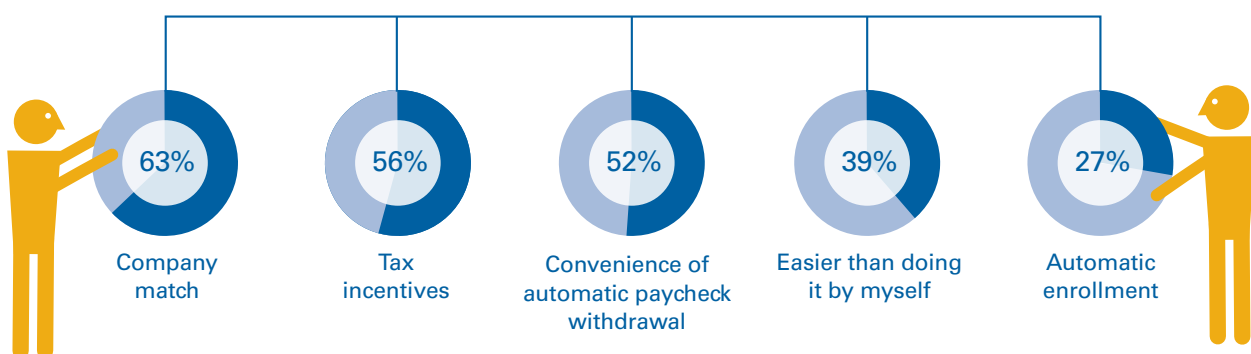
When asked how they would respond if the tax benefits were eliminated, only one in five participants said they would increase their contributions to make up the difference. Half would continue to contribute at the same rate, even though those contributions would be made with post-tax dollars, further reducing take-home pay. But for nearly 30% of participants, eliminating the tax benefits would have significant consequences as they say they would decrease their contribution or drop out of the plan altogether.

Beyond the financial incentives, our respondents highlight a number of key motivators for plan participation. Half of participants cite the convenience of an automatic paycheck withdrawal as a top reason for participation. Four in ten also say that saving in their company's retirement plan is easier than doing it themselves. Another 27% say automatic enrollment is their reason for participating.

### Access improving, but could be enhanced

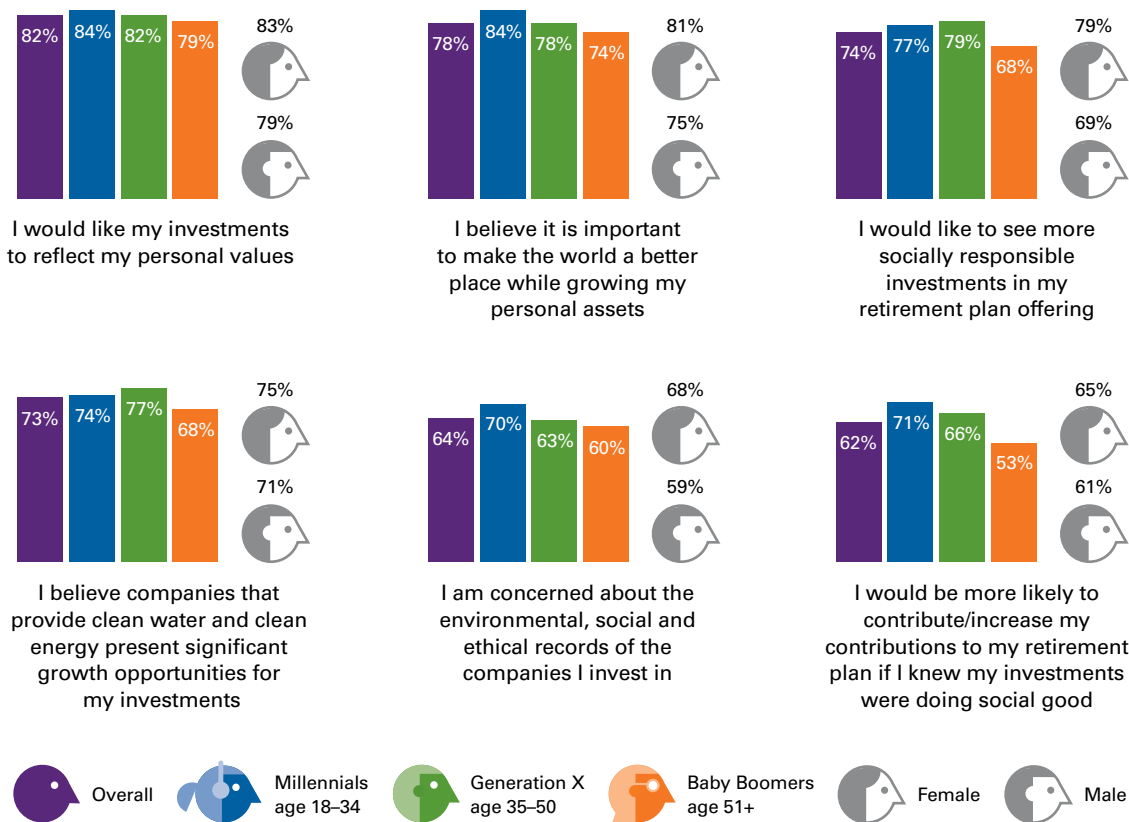
The first step to driving participation is making retirement plans more accessible. One in three workers do not have access to a workplace retirement savings plan according to the Department of Labor. While the fact that two-thirds of workers do have access to a plan is encouraging, there are still opportunities for improvement. Many employers have a waiting period that can require that employees complete as much as one year of employment before they can enroll in the company's plan.

#### TOP INCENTIVES FOR PARTICIPATION IN WORKPLACE SAVINGS PLANS



INTEREST IN ESG INVESTMENTS RUNS STRONG AMONG PLAN PARTICIPANTS

Percent of participants who agree with the following statements



More than eight in ten of the individuals we surveyed tell us they believe they could save more for retirement if they were able to access their company’s plan on the first day of employment. This goes hand in hand with the logic behind automatic enrollment. By making plan participation part of the new hire process, workers are able to set up their retirement plan account at the same time they are completing their W-2 and other paperwork needed to get them on board, making enrollment a seamless part of the new hire process.

**Long-term goals compete with short-term pressures**

Even when there is access to a plan and there are incentives in place, there are some employees who choose not to take advantage of the savings opportunity. From our pool of 300 individuals who have access to a plan but do not participate we find that saving for retirement must often take a back seat to more pressing short-term needs and that greater incentives may be necessary.

When asked why they don’t save in their company’s plan, 48% of non-participants say their employer doesn’t offer matching contributions or the employer match isn’t big enough to motivate participation. But underneath this, there is a strong sense of the role that personal finances play in their decision. Four in ten tell us they choose not to participate because they have too much debt to pay off, while another 19% specifically say they need to pay off student loans before they can save.

Student loans are cited by 29% of Millennials as a barrier to participation, but the problem is not limited to the youngest workers. Twenty percent of Generation X non-participants also say that their student loan debt is keeping them from saving in their company retirement plan.

### **Beyond money, participants want a personal connection**

Investment selection is another critical and potentially underutilized lever available to plan sponsors as they look to increase plan participation. One area where we see considerable interest from participants is Socially Responsible or Environmental, Social, and Governance (ESG) investing. ESG investing aims to build portfolios that deliver competitive returns while also helping to advance environmental and societal issues.

Overall 82% of our respondents say they want investments in their retirement plan that reflect their personal values. In fact, 62% of plan participants say they would increase their contributions if they knew their investments were doing social good. The preference is clearest among Millennials, 72% of whom say they would be motivated to invest more knowing their assets were doing social good.

This value of this kind of incentive is echoed in the broader investment views expressed by our survey respondents. Seventy-eight percent of plan participants, and 84% of Millennial participants, say they believe it's important to make the world a better place while growing their assets. Similarly 73% of participants believe companies that provide clean water and clean energy present significant opportunity for growing their assets. When it comes down to their investment preferences, three-quarters say they would like to see more socially responsible investments in their retirement plan offering.

### **Plan savings only one part of retirement income**

Individuals recognize that while a 401(k) plan is a powerful savings vehicle, income funding will still need to be multi-dimensional. Among their choices, participants most frequently rank personal savings (69%) and Social Security (63%) as their top income sources. Fewer cite home equity (36%), personal investments (36%) and their spouses' or significant others' retirement savings.

What's most surprising about these results is that those who opt out of plan participation are closely aligned with participants. We see that personal savings (63%) are most frequently cited as a retirement income source. By opting out of their employers' plans, these individuals may be missing out on a key opportunity to add to personal savings. This group also plans to rely on multiple income sources including Social Security (61%), personal investments (34%), their spouse's retirement savings (32%), and home equity (23%).

### **In the right frame of mind**

Overall we find that in theory, individuals generally have a positive attitude toward retirement. Even as they are challenged by questions about Social Security funding, and the pressure of managing personal finances, individuals know they need to take more personal responsibility for retirement funding. They understand the factors that could help them be successful in meeting their goals. In practice, their actions may keep them from attaining retirement security.

“ Student loans are cited by 29% of Millennials as a barrier to participation, but the problem is not limited to the youngest workers.

## ACTIONS

# In practice, participants face many barriers to save



“ If the purpose of plan participation is to fund future income needs, getting the math right from the outset is a critical factor.

While access to a company-sponsored retirement plan is still a barrier to generating retirement savings for one-third of American workers, more than 74 million are active participants in a defined contribution plan.<sup>2</sup> But achieving personal retirement security is likely to take more than merely enrolling in the plan. It will require a commitment from employees and employers alike to turn plan participants into active and engaged retirement investors.

If the purpose of plan participation is to fund future income needs, getting the math right from the outset is a critical factor. It starts with estimating the anticipated income needed to live in retirement, the time until retirement, and the money available for savings. Six in ten of those surveyed claim they know how much annual income they will need in retirement. Yet we see that they may underestimate just how much is really needed. As a result, participants aren't saving enough.

### Savings rates: where the rubber meets the road

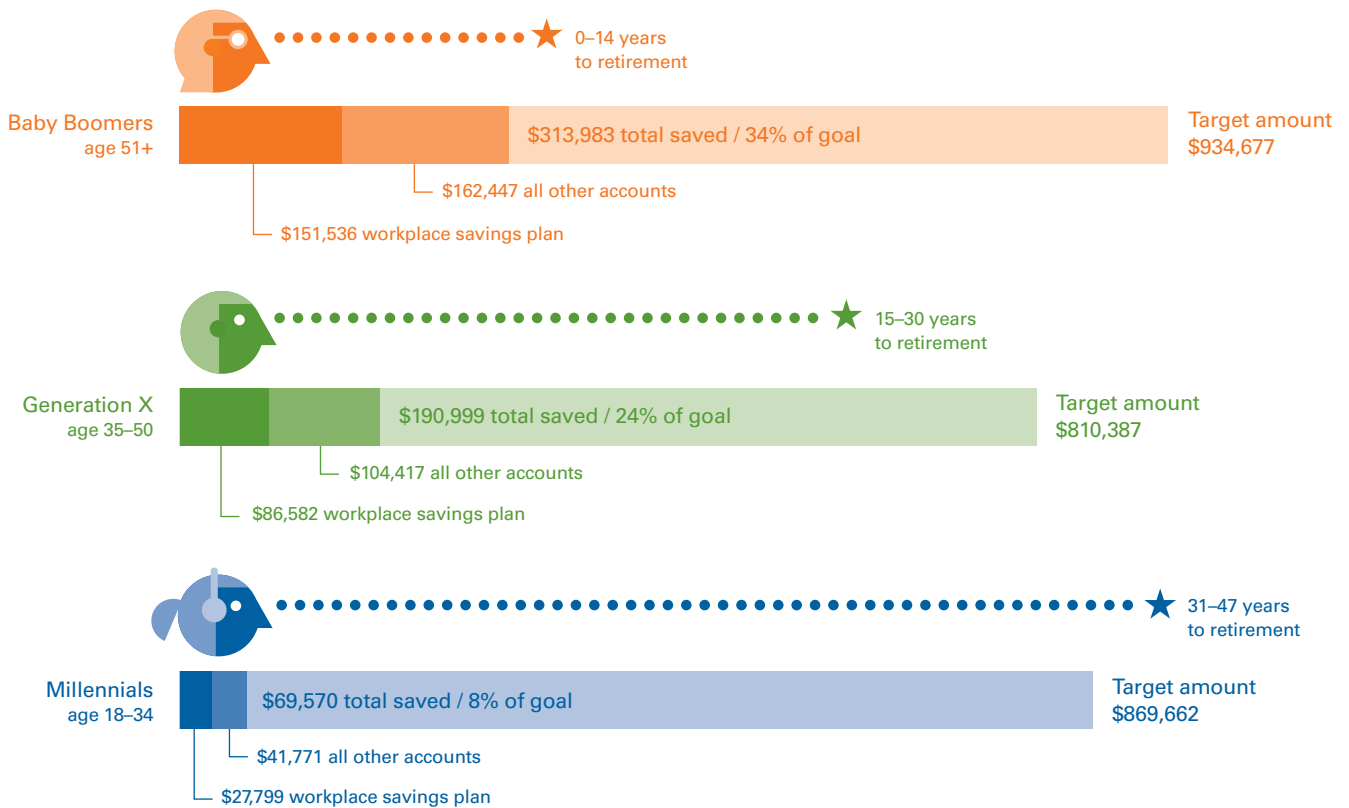
On average, survey respondents tell us they will need \$878,206 to fund 22 years of retirement living, which would translate into about \$3,300 monthly income over their estimated retirement timeframe. But overall, we see that most plan participants are not on track to achieve their self-stated retirement savings goals.

Baby Boomers, many of whom are at or near retirement age, are coming up short as the combined assets held in defined contribution plans and other retirement savings total \$313,983 on average or about 34% of the \$934,677 these individuals expect they will need in retirement. While many can generally expect to rely on Social Security benefits, if these funds don't cover the shortfall, it may call into question the quality of life many Boomers will experience in retirement.

<sup>2</sup> American Benefits Council, 401(k) Fast Facts, April 2014

## FALLING SHORT OF GOAL

Current savings habits leave most participants in danger of missing their retirement goals

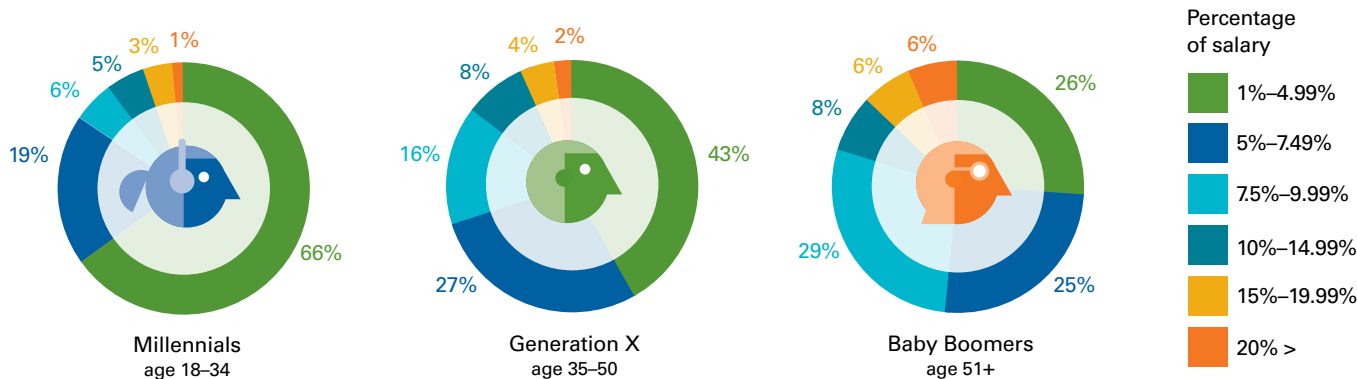


Generation X participants (age 35–50) may face greater challenges. Their combined retirement savings total about \$190,999 or 24% of the \$810,387 they’ve set as a goal. While these workers may have more time to save, they have much ground to make up. This is particularly difficult for this age cohort based on life circumstances. According to credit reporting specialist Experian, members of Generation X have an average of \$111,000 in combined debt per person. Their financial situation is further compounded as many are faced with the double impact of supporting aging parents and funding their children’s college tuition just as they enter what have traditionally been prime earning years.

Perhaps the brightest spot among plan participants are the Millennials. Aged 18 to 34, this group started participating in their company’s retirement plan at age 23, four to eight years earlier than Gen X and Boomers. They report that they have combined retirement savings of \$69,570. While this is only 8% of their stated goal of \$869,662, they are starting early and they have time on their side, which will provide them a longer timeframe for adding to retirement assets.

“ But overall, we see that most plan participants are not on track to achieve their self-stated retirement savings goals.

CONTRIBUTION RATES BY GENERATION



“ Participants tell us there are immediate financial pressures that keep them from contributing more now.

Contributions compete for attention with monthly bills

The rule of thumb with retirement plans has held that participants generally contribute enough to earn the company match. It appears that our respondents may prove this to be true. Overall, plan participants say they contribute 7.1% of wages to their retirement plan. But the math behind this average shows only one-third of workers actually contribute at this level. Among our pool of participants, 41% contribute between 1% and 4.99% of income to their retirement plan. Another 24% contribute between 5% and 7.49%. Just one-third of participants contribute more than 7.5% of salary.

We also see a significant generational split in contribution rates. Baby Boomers contribute 8.6% on average, while Generation X participants contribute 6.6% and Millennials contribute 5.3%. It stands to reason that contribution levels would increase as participants age, income increases and retirement is less of an abstract concept and more of a financial reality. But increasing contribution levels earlier could provide younger workers with a significant advantage in meeting their funding goals, particularly if they are concerned with Social Security benefits declining in the future. Many plans now include an auto-escalation feature designed to help employees seamlessly increase their contribution rate annually.

Even though a defined contribution plan can be a pathway toward pursuing security in retirement in the future, participants tell us there are immediate financial pressures that keep them from contributing more now. Three-quarters of participants say daily living and lifestyle expenses impede their ability to maximize contributions. Another 43% say the need to repay general debt while 35% say rising healthcare costs also minimize contribution rates.

DC as ATM

The impact of personal finances on retirement plan balances is amplified by those participants who look to long-term, tax-deferred savings to generate short-term cash flow. Almost one-third of participants say they have taken a loan against their plan savings. Another 28% report that they have taken a withdrawal from their retirement plan – including 41% of Millennials. The same number of respondents say they have taken a lump sum distribution when changing jobs.



Decisions like these present a serious detriment to achieving retirement security. Taking a loan against plan savings means individuals will lose out on the earning potential of this portion of their assets and have interest payments taken out of their monthly contributions. Withdrawals present even worse consequences, as non-qualified withdrawals are taxable and are often subject to a 10% penalty. Taking a distribution can have serious consequences, as it can wipe out assets that have taken years to accumulate.

The factors that lead to these counterproductive decisions are similar to those that minimize savings rates. Financial hardship (37%) is the most commonly cited reason for taking a withdrawal from the plan, followed by healthcare (29%) and paying down debt (25%).

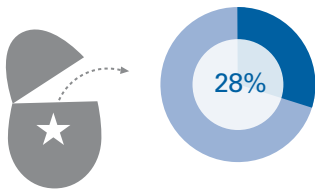
### Active participation is needed

Employers have been successful in driving plan participation by implementing auto-enrollment features. In fact 43% of survey respondents say they began plan participation this way. While signing on to an employer plan can be the first step on the road to achieving retirement security, active participation is needed to fulfill the promises of the plan. About half (48%) of those who are enrolled this way continue to invest in the funds automatically selected for them, including 53% of the Millennials in this cohort. The other half of participants say they actively manage their investments.

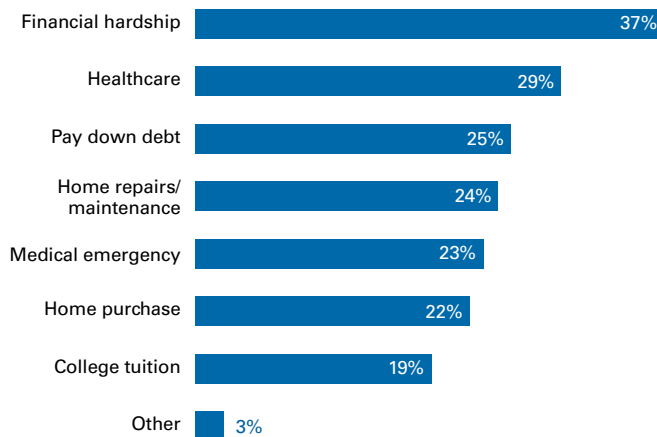
“ While signing on to an employer plan can be the first step on the road to achieving retirement security, active participation is needed to fulfill the promises of the plan.

### REASONS WHY PARTICIPANTS HAVE TAKEN WITHDRAWALS

Percent of participants who say yes with multiple answers allowed

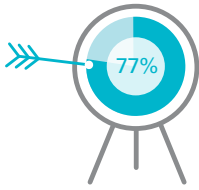


I have taken a withdrawal from my workplace savings in the past

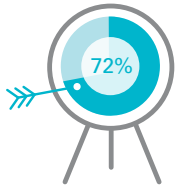


## SENTIMENTS ON TARGET DATE FUNDS

Percent of participants who agree with the following statements



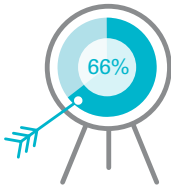
TDFs are an important part of my retirement plan



I know what assets the target date funds I hold are invested in



TDFs offer valuable diversification in a portfolio



TDFs are the best default option for employees who are automatically enrolled in their workplace retirement plan



Target date funds perform better than other funds offered in my plan

As might be expected, stock (60%), bond (35%) and money market funds (35%) are the most popular investments selected by participants. A growing number of participants are selecting target date funds\* (25%), an option that appears to be most popular among Millennials (34%) compared to 22% of Generation X and 21% of Baby Boomers. Overall participants have a positive view of these funds with 77% saying they are an important part of their retirement plan and 66% saying they are the best default option for employees who are enrolled automatically.

Another example where individuals may be missing the opportunity to move from participation to full engagement is in their saving habits. One of the most effective strategies for growing savings is to increase contributions annually until the maximum contribution rate is achieved. Many employers help facilitate this with auto-escalation features, but it appears that fewer than half of participants take advantage of this opportunity to maximize savings. Only 45% of participants claim to follow this approach. It appears that Millennials may be more inclined to increase contributions annually as 53% report implementing this savings strategy, while another 59% say they contribute the maximum amount to their retirement plan.

### Playing catch-up

Workers over the age of 50 have additional opportunities to maximize savings with catch-up provisions which allow them to make a contribution of \$6,000 above the maximum contribution limit of their employer's plan. For participants who are committed to generating retirement savings, but may have started saving late, or have had to tap retirement funds for other financial needs, these additional contributions could serve as a much-needed boost. But fewer than half of qualified participants say they take advantage of this feature. This is an area where there is a wide gender gap in savings habits. Just 34% of women take advantage of catch-up contributions, while 54% of men make the additional contributions to their plan.

### From participation to engagement

Retirement savings may be a top financial priority for U.S. workers, but it is a long-term financial goal that must compete with short-term financial pressures. Auto-enrollment is a feature that leads many U.S. workers to the essential first step of retirement savings, but generating the savings needed will require deeper engagement from individuals. Favorable government policies such as pre-tax contributions, and employer incentives such as matching contributions, are critical tools that motivate individuals to go beyond the basics. Individuals, employers and policy makers must all take a role in ensuring retirement security.

\*A target date fund is a mutual fund in the hybrid category that automatically resets the asset mix of stocks, bonds and cash equivalents in its portfolio according to a selected time frame that is appropriate for a particular investor.

# Education and advice are essential components of a secure retirement



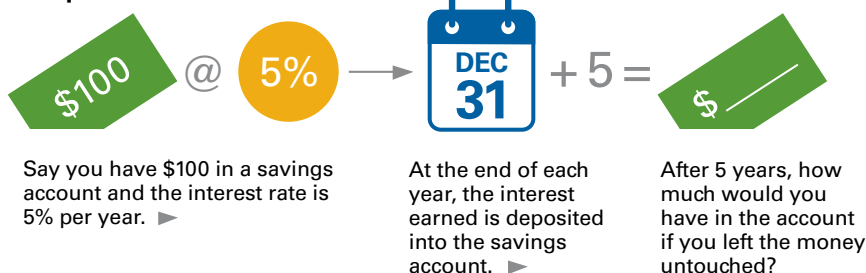
As seen through the eyes of plan participants in 2016, retirement planning is a complex process. Individuals need to think carefully to determine what they will need to fund a retirement that can last two, three or more decades. They must determine how much must be saved annually to generate these funds. They must examine a range of financial products, evaluate the risks, and determine what mix of investments will help attain their desired savings goals. For many, their retirement plan savings may be the single largest asset they will accumulate in a lifetime, and all too often they must figure it all out for themselves.

“ Individuals need to think carefully to determine what they will need to fund a retirement that can last two, three or more decades.

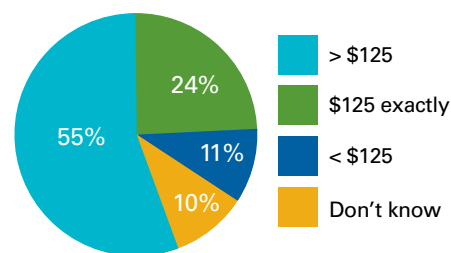
The magnitude of what’s needed can be intimidating for many participants and they may not be equipped to handle the responsibility. According to Standard & Poor’s Global FinLit rankings, a global test of financial literacy, only 57% of the American public makes the grade. As a result, America ranks 14th out of 144 countries in overall financial literacy.<sup>3</sup>

## TESTING RESPONDENTS’ GENERAL INVESTOR KNOWLEDGE

### The question



### Respondents' answers



For illustrative purposes only. Hypothetical scenario does not consider investment risk.  
 3 McGraw Hill Financial Global FinLit Survey, 2014

### Making the grade on financial literacy

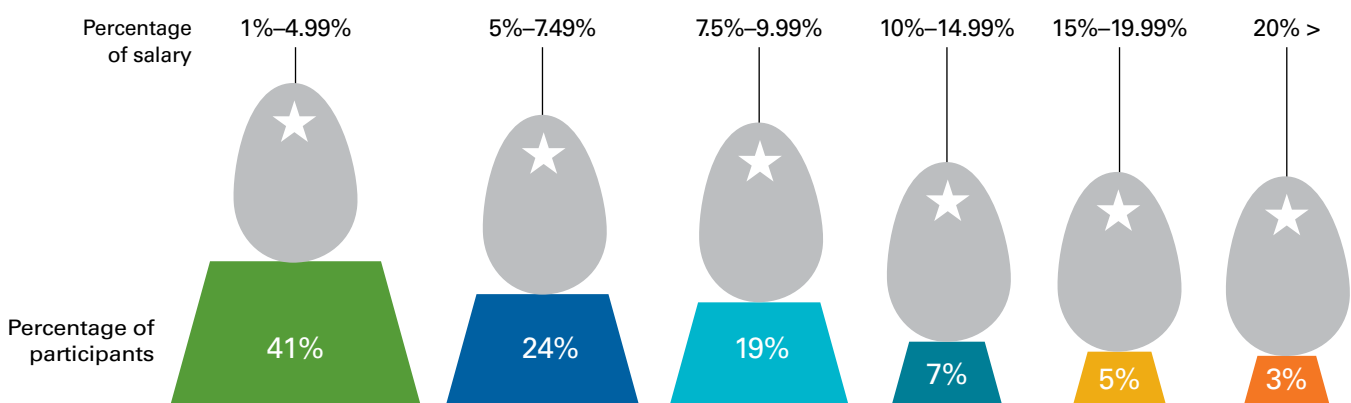
Our own simple financial test for plan participants shows that there is much work to be done on the literacy front. Knowing that compounding can be a powerful force for growing retirement savings over time, we posed a brief word problem to respondents: “Beginning with \$100 compounded at 5% annually, how much would your investment be worth in five years?” Only 55% of those surveyed knew that their assets had the potential to grow to more than \$125. Of course, all investing involves risk, including risk of loss, and investors should not expect to earn a 5% return without exposing their assets to risk of loss.

This pop quiz is not intended to cast a shadow on the individuals in our survey, but instead it is a simple way of shedding a light on the need for financial advice. It is another example of why two-thirds of U.S. investors included in our 2016 Global Survey of Individual Investors said professional advice is necessary to manage their investments and meet their retirement goals.

### Professional help wanted

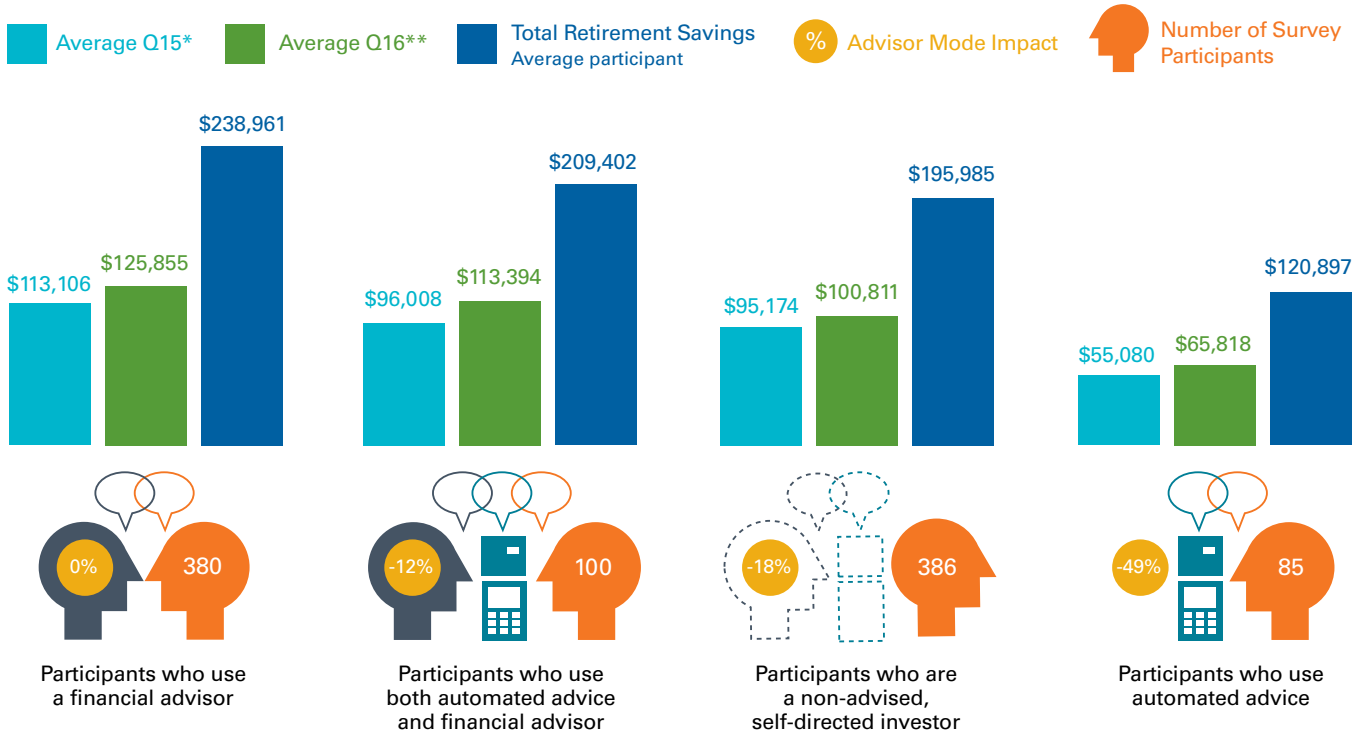
Our survey looked at individuals using a range of advice methods, including 30% who work with a financial advisor, 7% who work with an automated advice platform, 6% who use both, and 57% who are self-directed. What we found is that individuals who worked directly with a financial advisor had saved \$238,960 for retirement, almost twice the \$120,897 accumulated by those working with automated advice and about one-quarter better than the \$195,984 saved by those who were self-directed investors.

#### NOT SAVING ENOUGH IS A MAJOR THREAT TO RETIREMENT SECURITY



Percentage of participants totals more than 100% due to rounding.

## DIFFERENCE IN SAVINGS BALANCES OF ADVISED, ROBO-ADVISED, COMBO AND SELF-DIRECTED PARTICIPANTS



\* Approximately how much (lump sum) have you saved in your current employer's workplace savings plan to date? (in U.S. dollars)

\*\* Approximately how much (lump sum) have you saved for retirement in all other accounts (IRAs, taxable accounts, savings accounts, etc.)? (in U.S. dollars)

Across generations we see the positive influence that professional advice has on retirement savings. Baby Boomers with advisors report saving 20% more than those without. Among Generation X, the generation that may be under the most financial stress, those with advisors had saved 60% more than those without. Even among Millennial participants, many of whom are balancing retirement savings with paying off student loans and the costs of establishing an adult life, we still see an 8% advantage in the savings of those who work with an advisor.

“ Across generations we see the positive influence that professional advice has on retirement savings.

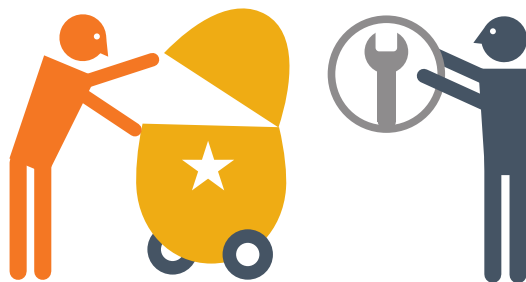
More broadly, we see that participants with access to professional advice also demonstrate better savings habits and deeper engagement with their retirement plan. Those with access to advice are more likely to say they contribute the maximum amount to their defined contribution plan than those without advice (45% vs. 36%). The same is true for those who say they increase contributions each year (48% vs. 39%). They are also more likely to say they know how much they need to save each year for retirement (62% vs. 45%). They are more likely to say they have a general figure they need to save each year (79% vs. 61%). And they are more likely to say they know how much income they will need to live comfortably in retirement (65% vs. 54%).

This clarity of purpose is an example of why almost three-quarters of the U.S. investors included in our Investor Survey said they believe investors who get professional advice are more likely to meet their retirement goals than those who don't and seven in ten said professional advice is worth the fee.

Investors may express the real value of advice in today's complex world when they outline what they want most from a financial professional. It starts with getting help in making financial decisions for 43% of investors, and 42% say they want help with setting plans and goals. But access to professional financial advice is just one part of achieving retirement security for plan participants.

### Retirement security is more than a personal responsibility

Individuals today know they bear a far greater responsibility for funding retirement than in previous generations. But pursuing this security is much more than a personal responsibility; it is truly part of a public trust in which policy makers, employers and individuals each hold a stake in success.



“ Access to defined contribution plans has improved over time. But one-third of American workers do not have access to a retirement savings plan.

### Policy makers

The retirement crisis is real. Social Security will be strained to provide full benefits after 2034. Economics have pressed employers to transition from traditional pension benefits to defined contribution plans in order to decrease long-term funding liabilities. Individuals are challenged by the high cost of living in the U.S. to balance short-term financial pressure with long-term retirement responsibilities. Effective public policy has helped millions of individuals make the first step toward saving for retirement. In 2016, policy can go further toward helping more workers pursue a financially secure retirement.

Access to defined contribution plans has improved over time. But one-third of American workers do not have access to a retirement savings plan. Getting to 100% coverage should not require mandates; instead policy makers can provide tax incentives for small businesses and streamlined plan requirements to expand the availability of workplace retirement plans. For individuals, it is essential to protect tax incentives for savings, making it easier for individuals to fulfill their personal responsibility for retirement. But moving from savings to investing for retirement requires professional assistance, and policies should consider the value that a financial professional can offer to individuals as they save for retirement.



## Employers

There are more than 635,000 defined contribution plans in the U.S. today, and employers should be applauded for making this valuable benefit available to almost 90 million workers.<sup>4</sup> But the retirement funding challenges in the U.S. will require higher participation rates and deeper engagement from employees, and employers have many levers to pull in helping to ensure each worker has the opportunity to reach a secure retirement.

Automatic enrollment of all employees is a strong consideration. Making retirement savings an opt-out choice for employees improves the odds of getting more people into company retirement plans. Employers in the U.K. are now required to offer this option, and as a result, participation rates have increased by 30% in two years. Allowing plan participation from the first day of employment may help improve participation rates and increase employee contributions. Automatic escalation features also serve to increase contributions, giving employees an easy solution for growing retirement assets.

Beyond loading up the options on plans, we see that workers need education and advice if they are going to navigate the complex choices they face in funding retirement. Participant education needs to go beyond basic lessons in diversification, allocation and compounding if workers are to become more engaged in retirement savings. Plan sponsors may find that offering investments such as ESG strategies in their defined contribution plan may also increase employee engagement by allowing individuals to engage personally with their investment plan.

As seen in retirement plan savings rates, professional advice can make a significant difference in the assets individuals accumulate for retirement, yet only 30% of those surveyed say their employer offers access to this service. Employers looking to increase plan participation and contribution rates may want to consider how advice can be integrated into the plan. Participants say healthcare costs and student loans keep them from contributing at higher rates. Employers can complement retirement savings by adding health savings accounts and student loan payment programs to their benefits, offering to help increase employee retirement contributions.

“Workers need education and advice if they are going to navigate the complex choices they face in funding retirement.”

<sup>4</sup> American Benefits Council, 401(k) Fast Facts, April 2014

“ With the 401(k) and other defined contribution plans, American workers have been given the keys to a high-performance savings vehicle.

### Individuals

With the 401(k) and other defined contribution plans, American workers have been given the keys to a high-performance savings vehicle. To successfully navigate the road to retirement they first need to make the effort to participate. Younger workers can afford to start small. Making contributions early allows time for contributions to grow and potentially compound over time, although investing involves risk of loss and investors should be sure they understand the risks of their chosen investments. Older workers can make up for lost time by taking advantage of catch-up contributions to increase their plan balance.

One basic step may be to simply take the time to review the plan documents and learn about all the options available. Does the plan offer auto-escalation? Does it provide access to professional advice? Who qualifies for catch-up contributions? These are all important considerations for participants looking for help in maximizing retirement savings. Retirement should not be as simple as “set it and forget it.” Plan savings should be considered alongside all other qualified vehicles such as Individual Retirement Accounts to maximize savings over the long term. What may be most critical to achieving retirement security may be taking the steps to set a financial plan. We know from our survey of individual investors that 52% of Americans say they do not have clear financial goals and 62% say they have no financial plans. Whether participants work with an investment professional to set up a more detailed financial plan for their retirement, or deploy online tools, they can better position themselves for long-term success.

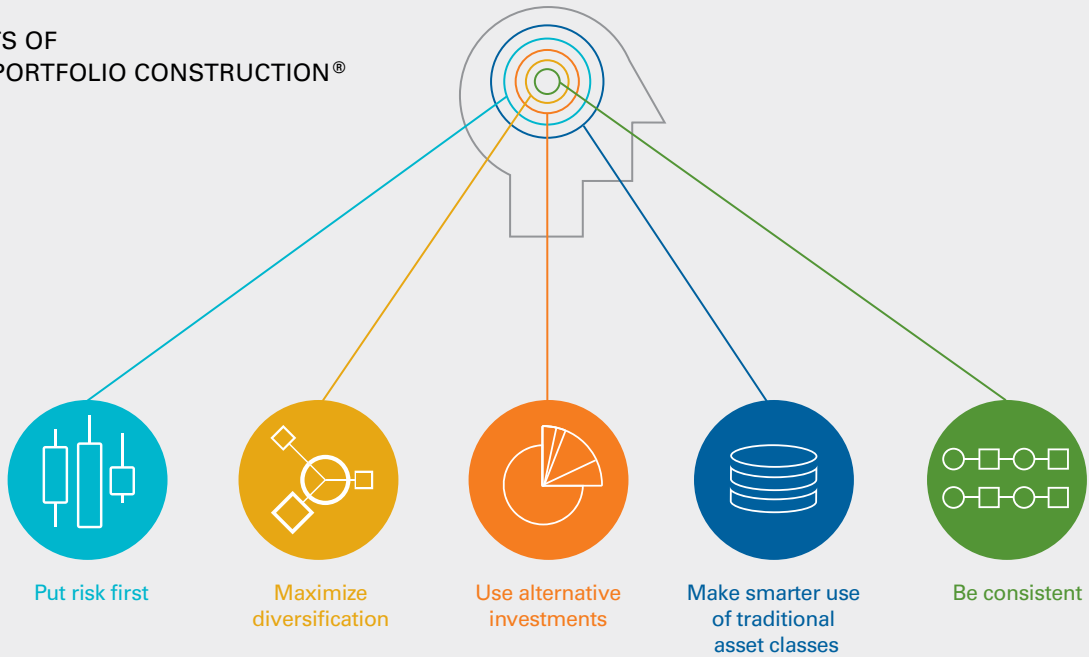
### Filling the tank

Retirement security has become a personal responsibility for American workers, but individuals do not have to go it alone. If we are to meet the challenges of reduced funding for public pensions while helping individuals close the retirement savings gap, it will require the efforts of workers, employers, policy makers and the asset management industry to fuel retirement savings over the long term.





## FIVE TENETS OF DURABLE PORTFOLIO CONSTRUCTION®



### Toward more durable portfolios

In markets across the globe we have seen investors of all types challenged to meet the competing priorities of generating returns through short-term market cycles and funding long-term financial liabilities. In our view, meeting these modern market challenges demands a more consistent investment framework.

We believe **Durable Portfolio Construction®** can make a difference to individuals, advisors and institutions as they look to build portfolios that can help address risk concerns while also pursuing long-term asset growth. Our tenets for Durable Portfolio Construction include:

**Put risk first** – Risk profiles for some indexes have been relatively stable in recent years, while returns have been widely varied. Targeting a consistent range of risk, rather than a potential range of returns, may lead to more predictable results.

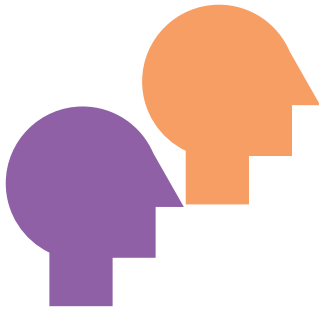
**Maximize diversification** – Considering the broadest possible range of asset classes and investment strategies such as long and short exposures to equities, fixed-income and commodities is one way to manage portfolio volatility.

**Use alternatives** – Alternative investments may help lower correlations, temper volatility and offer new sources of return.

**Make smarter use of traditional asset classes** – Applying new, efficient ways to capitalize on the long-term return potential of stocks and bonds can potentially enhance long-term returns or reduce short-term risks.

**Be consistent** – Following a consistent investment philosophy is a critical first step to ensuring portfolio durability, but equally important is establishing a consistent, personal measure of investment performance to guide decisions and gauge progress.

Durable Portfolio Construction® does not guarantee a profit or protect against a loss.



## PROGRAM OVERVIEW

### About the Durable Portfolio Construction Research Center

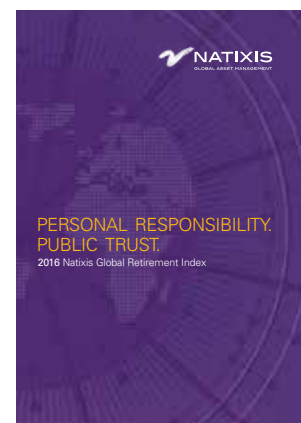
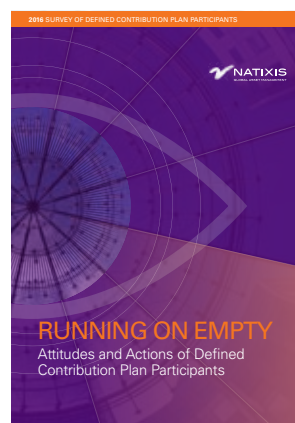
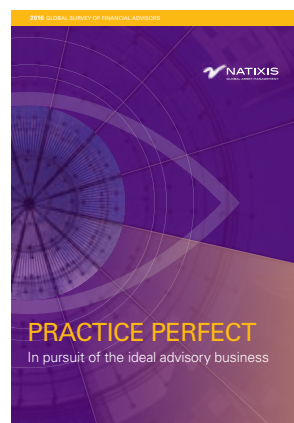
Investing can be complicated: Event risk is greater and more frequent. Volatility is persistent despite market gains. And investment products are more complex. These factors and others weigh on the psyche of investors and shape their attitudes and perceptions, which ultimately influence their investment decisions. Through the Durable Portfolio Construction Research Center, Natixis Global Asset Management conducts research with investors around the globe to gain an understanding of their feelings about risk, their attitudes toward the markets, and their perceptions of investing.

### Research agenda

Our annual research program offers insights into the perceptions and motivations of individuals, institutions and financial advisors around the globe and looks at financial, economic and public policy factors that shape retirement globally with:

- **Global Survey of Individual Investors** – reaches out to 7,000 investors in 17 countries.
- **Global Survey of Financial Advisors** – reaches out to 2,400 advisors, consultants and decision-makers in 14 countries.
- **Natixis Global Retirement Index** – provides insight into the environment for retirees in 150 countries based on 20 economic, regulatory and health factors.

The end result is a comprehensive look into the minds of investors – and the challenges they face as they pursue long-term investment goals.



### About the surveys referenced in this paper

**2015 Global Survey of Individual Investors** – Natixis Global Asset Management commissioned CoreData Research to conduct a global study of individual investors, with the goal of understanding their views on the markets, investing and measuring their progress toward financial goals.

Data was gathered throughout January and February 2015. The study included 7,000 investors in 17 countries.

**2015 Global Survey of Financial Advisors** – Natixis Global Asset Management commissioned CoreData Research to conduct an international study of financial advisors, with the aim of better understanding the contemporary attitudes and needs of this key collective of individuals to the financial services industry.

Data was gathered over a five-week period spanning June and July 2015. Globally, the study involved 2,400 financial advisors in 14 countries and territories.

**2014 Survey of U.S. 401(k) Participants** – Natixis Global Asset Management commissioned CoreData Research to conduct a study of U.S. 401(k) participants, with the aim of understanding their thoughts and needs around saving for retirement.

Data was gathered in May 2014 and included 1,000 U.S. investors.

### Helping to build more durable portfolios

Natixis Global Asset Management is committed to helping advisors build better portfolios that stand up to the challenges of modern markets. To learn more about our Durable Portfolio Construction® philosophy, visit [ngam.natixis.com/durableportfolioconstruction](http://ngam.natixis.com/durableportfolioconstruction).

### **Methodology**

Natixis Global Asset Management commissioned CoreData Research to conduct a study of 951 U.S. investors, 651 being plan participants and 300 non-participants. The age groups are broken up as follows: 285 Gen Y (18–34 years old), 283 Gen X (35–50 years old) and 383 Baby Boomers (51 years and older). The minimum income level required for survey respondents was \$15,000. Data was gathered in August and September 2016.

This communication is for information only. Analysis of the survey referenced herein is as of November 2016. There can be no assurance that developments will transpire as may be forecasted in this material. This material may not be redistributed, published, or reproduced, in whole or in part.

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