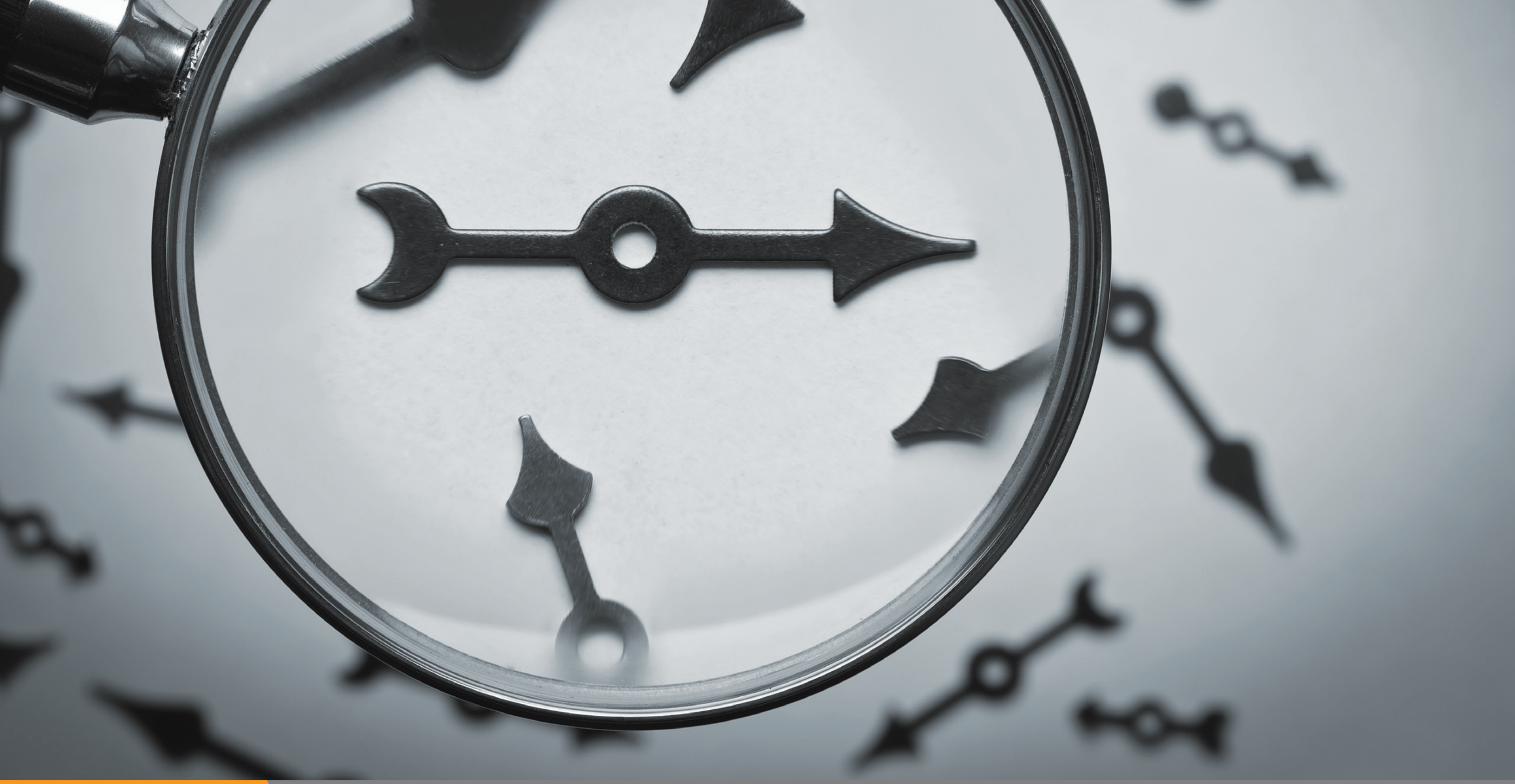

RETIREMENT
INSIGHTS

2013 Plan Participant Survey Findings

Searching for direction on the journey to retirement

J.P.Morgan
Asset Management

METHODOLOGY AND RESPONDENT PROFILE

To gain a better understanding of how 401(k) plan participants make decisions about saving and investing for retirement, J.P. Morgan Asset Management partnered with Mathew Greenwald & Associates, Inc., a leading market research firm based in Washington, D.C., to conduct a research study. A survey of 1,009 respondents was conducted among the general population of 401(k) participants, including 554 men and 455 women. In order to qualify for the study, respondents had to be employed full- or part-time at a for-profit organization with at least 50 employees, be at least 18 years old and have contributed to a 401(k) in the last 12 months.

Information for this study was gathered through 20-minute online surveys that took place from October 2 to October 18, 2012. Respondents were asked how they make decisions regarding retirement planning and their 401(k) plan, their level of engagement in the process and their preferences about automatic features. Survey results have been weighted by age, gender and education to reflect the overall makeup of the general population of 401(k) plan participants. In a similarly sized, random sample survey of general population respondents, the margin of error (at the 95% confidence level) for the total population in this study (1,009) would be plus or minus approximately 3.1 percentage points.

Some of the questions included in this study are similar to questions asked in a previous J.P. Morgan study conducted in 2010, *Searching for Certainty: Observations and opinions on how changing market conditions are affecting 401(k) plan participant outcomes,* and in an earlier study from 2009, *Anything But Certain: A nationwide study of attitudes and behaviors among 401(k) plan participants*. Taken together, these studies offer a picture of how the savings and spending habits of plan participants have changed over time and in response to market conditions. Where applicable, the results from the latest study are compared with results from the prior studies.

Note: Totals in the exhibits may not equal 100% because of rounding.

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Executive Summary

Overview

Many headwinds continue to affect the retirement security of millions of Americans. The low-yield environment and market volatility of recent years have fundamentally altered risk/return expectations, while defined contribution (DC) plans, such as 401(k) plans, are expected to provide a primary source of retirement income beyond Social Security. Even though individuals understand that managing 401(k) accounts is basically their responsibility, many lack the time, knowledge or interest necessary to manage their retirement account effectively. As a result, the industry has shifted from a focus on self-direction in managing 401(k) accounts to an evolution of automatic programs to help participants reach a financially comfortable retirement.

We embarked on this study to gain deeper insight into participants' attitudes toward retirement savings. We found that many individuals—burdened by debt and other financial concerns—are planning to retire later than expected. At the same time, participants continue to feel overwhelmed by the process of planning for retirement, with the majority likely to seek out professional advice. The good news is that there are positive changes in plan designs that can help individuals get on an appropriate path to savings. We take a closer look at some of these developments, which include the growing popularity of automatic enrollment and automatic contribution escalation, and discuss potential implications for plan sponsors.

Key findings

Participants plan to retire later, creating opportunities and challenges for employers

About half of respondents say they would like to retire before the age of 65, but only 20% believe they will realistically be able to do so. Regardless of income levels, individuals admit that their "realistic" retirement age is higher than their preferred retirement age. While younger, lower-income workers face the longest delays to retirement, older, wealthier employees still expect to work longer than they had anticipated. As a result, many employers will have the benefit of a more tenured, experienced workforce but may also have to balance their accumulated knowledge with a potential rise in older workers' benefit and health care cost.

Paying off debt remains a top priority and continues to function as an obstacle to saving for retirement

Consistent with our 2010 survey findings, paying monthly bills remains the top concern among households, with roughly two-thirds of individuals listing it as one of their top-two financial priorities—including half who rank it number one. Saving for retirement remains the second top priority. Financial pressures—which are also affecting worker productivity—are one of several factors hampering people's ability to save for retirement.

Most people continue to feel overwhelmed about making retirement plan decisions

About half of respondents believe they don't have enough knowledge to plan for retirement on their own, while only a quarter of workers say they are highly confident in their ability to make investment decisions. Faced with complex choices—or too many choices—many participants end up making poor investment decisions that leave them inadequately diversified and/or overexposed to risky asset classes. Providing more educational information to participants may seem like a good idea, but given that 44% of individuals already feel that they are getting more information than they can absorb, it may not be the best solution. The answer may lie instead in developing targeted, motivating and customized communications, which may prove to be both more meaningful and more useful in encouraging engagements.

Most participants want and need professional help with their retirement plan decisions

One of the key findings from the study is that most participants in 401(k) plans want and need help with two key elements of their plans: 1) How much they should defer into the plans; and 2) How they should allocate their investments. About three-quarters want professional advice on investing, of which one-quarter of those want to delegate the entire process to a professional without providing input. In fact, half of survey respondents say they would prefer to just push an "easy" button for retirement to completely hand over their retirement planning and investing to a financial professional.

Providing retirement income projections can motivate people to save more

Most people generally underestimate the post-retirement income needed to retire comfortably. For example, when asked what percentage of their current income would be needed in retirement, four in 10 participants believe they would need between 50% and 74% of their pre-retirement income: but experts estimate that many people will need 80% to 100% of pre-retirement income. For plan sponsors, providing retirement income projections during the working years—in combination with customized communications that take into account participants' ages, incomes and engagement levels—may help participants develop more realistic expectations and spur them to save more.

Automatic features in 401(k) plans can help participants get on the right track for savings

One way to help participants move to an appropriate savings track is to automatically enroll them into their employers' 401(k) plans and then automatically increase their contributions over time to get them to save at double-digit levels as soon as possible. While some companies may be hesitant to combine these two features—automatic enrollment and automatic contribution escalation—for fear of employee backlash, participants are largely in favor or are neutral on the idea of combining these automatic features. In fact, in those plans where individuals are either automatically enrolled in the company's 401(k) plans or have their contributions automatically increased over time, few people choose to opt out. More than two-thirds of plans with automatic contribution escalation have opt-out rates lower than 10%, and half have opt-out rates of less than 5%, according to the Defined Contribution Institutional Investment Association's (DCIIA's) 2012 Plan Sponsor Survey. The opt-out rates are similar for plans with automatic enrollment.

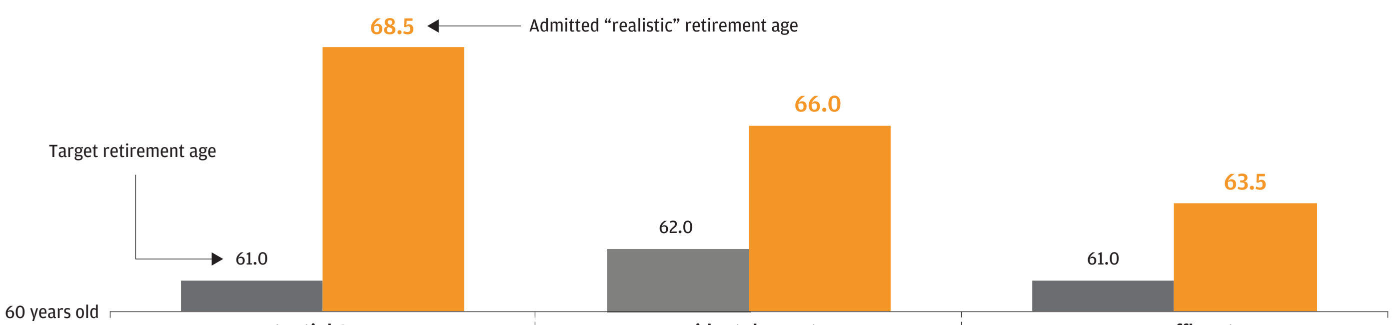
Redefining retirement

AS WORKERS DELAY RETIREMENT, EMPLOYERS NEED TO REASSESS

Even as stock prices rise, unemployment drops and the economic recovery takes hold, more American workers—even wealthier ones—are planning to delay retirement. When asked at what age individuals would ideally like to retire, nearly half (48%) consider it optimal to retire before the age of 65. Only 20%, however, believe that it is possible to retire before then. After categorizing individuals into "personas," which include factors such as income, age, savings and assets, a more nuanced portrait emerges (see box on next page). The gaps between the targeted and the admitted "realistic" retirement ages are widest for younger, less affluent workers (an average of seven years) and narrowest for wealthier, older workers (an average of two years) (**Exhibit 1**).

Regardless of income, individuals are planning to delay their retirement

EXHIBIT 1: PARTICIPANT PERSONAS' TARGET RETIREMENT AGE VS. "REALISTIC" RETIREMENT AGE



Potential Saver	Accidental Investor	Mass Affluent
Average age: < 40	Average age: 48	Average age: 52
• $35–50k personal income	• $50–75k personal income	• $100–125k personal income
• $45–70k household income	• $70–100k household income	• $125–170k household income
• $10–25k 401(k) balance	• $25–50k 401(k) balance	• $150–250k 401(k) balance
• $10–25k total savings	• $100–150k total savings	• $250–500k total savings

Note: Total n = 1,009. Dollar amounts represent averages for each segment. The number of respondents with $75,000–$99,999 in personal income was too small to build out a representative segment.

Source: J.P. Morgan Plan Participant Research 2012.

PARTICIPANT PERSONAS

Survey respondents were classified into the following participant personas based on demographic segments such as their income, current 401(k) balances, total savings and investments and total household retirement assets. When appropriate, the segments were enhanced with data from Acxiom, a developer of large and sophisticated business intelligence and marketing databases based in Little Rock, AR.

- **Potential Savers,** whose average annual income levels are typically less than $50,000, have difficulty finding excess dollars to save for retirement. They tend to be younger, with an average age of just under 40 years and, in this sample, are equally male and female. More than a quarter of them are single and only 43% are married.* Given average current balances of $10,000 to $25,000 in their 401(k) plans, the majority of Potential Savers do not appear to be saving sufficiently for a comfortable retirement.
- **Accidental Investors** are so named because they tend to be automatically enrolled in their employers' 401(k) plans but, generally, do not pay close attention to what happens to their money afterward. Accidental Investors tend to be older than Potential Savers (with an average age of 48), are mostly homeowners and are likely to be married. With average annual incomes between $50,000 and $75,000 and average 401(k) balances of $25,000 and $50,000 in their 401(k) plans, they also make more money and save more for retirement than Potential Savers.
- **Mass Affluent,** with an average age of 52, tend to be the wealthiest population segment, as well as the closest to retirement in terms of age. This group, of which about two-thirds are male and 80% are married, make between $100,000 and $125,000 in annual income and have average 401(k) balances ranging from $150,000 to $250,000. The Mass Affluent typically contribute the maximum allowed amounts to their 401(k) plans every year.

* The relationship status of all three personas is classified as either married, living with a partner, divorced/separated, widowed or single.

When we categorize participants into three broad personas (see above), we find significant differences among them.

- **Potential Savers expect to work an additional seven years, on average, past their desired retirement age of 61.** While Potential Savers would like to retire at the youngest average age of all three personas, they also have the highest "realistic" average retirement age, 68.5 years, with more than 42% expecting to retire at age 66 and older. This means that the average group, which will likely work for another 20 or more years, may have to work at least seven years longer than they would like. And while 60% of this group say they realistically expect to retire at age 65 or older, roughly one-third did not select any target retirement age.
- **Accidental Investors expect to work an additional four years, on average, past their desired retirement age of 62, giving them a "realistic" average retirement age of 66.** So, while they would like to work another 14 to 15 years, they realistically expect to work another 18 to 19 years. Those who want to retire before age 60 tend to be the youngest of this group—possibly an indication that they may not be thinking much about retirement, given that it is a long way off. Those who selected age 60 or later as their retirement date contribute more to their plans—possibly an indication that they are trying to make up for lost time, among other factors.
- **Mass Affluent expect to work an additional two years, on average, past their desired retirement age of 61, giving them a "realistic" average retirement age of 63.5.** With just over 10 years of total remaining time in the workplace, the Mass Affluent have the smallest difference of any group (4.2%), which means they are typically very certain about how much to defer, with most of them deferring almost the same amount. This may be because this group contributes the maximum allowed amounts to their plans every year, while taking advantage of other savings vehicles.

As more people decide, or are forced, to delay their retirement, companies will have to manage an aging labor pool. While companies will have the benefit of more experienced, knowledgeable employees, they may also have to manage potentially higher costs (in terms of both salary and benefits) associated with paying older workers. For example, companies tend to continue to pay the same percentage of an employee's health care premiums, even though the cost of providing health insurance usually rises with age.[1] Other short-term cost considerations may stem from potential satisfaction issues. One can imagine that individuals who are forced to work longer than they had expected, for general reasons, may have lower overall satisfaction than workers who retire on time.

[1] Based on Kaiser HRET Survey of Employer-Sponsored Health Benefits, 2012.

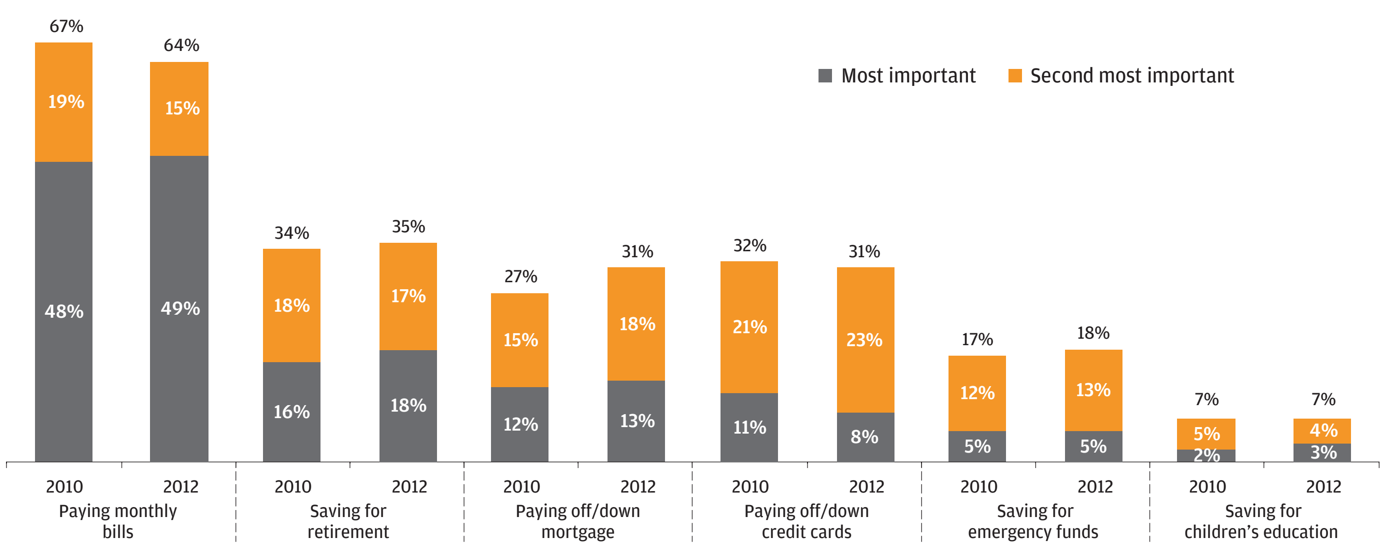
Retirement roadblocks

FACED WITH FINANCIAL CONCERNS, PLAN PARTICIPANTS SEEK ADVICE

Despite market gains in 2012, people's financial priorities haven't changed much in recent years. Financial pressures register as the largest sources of worry, even above job security and health. Wealthier individuals are the least likely to worry about any of these issues, while individuals under age 50, unmarried, with only a high school degree and/or earning less than $100,000 in household income are among those most likely to worry about financial pressures. Meanwhile, consistent with our 2010 findings, the top financial priority is paying monthly bills, with saving for retirement ranking second (**Exhibit 2**).

Paying monthly bills ranks as the top financial priority, followed by saving for retirement

EXHIBIT 2: "PLEASE RANK THE FOLLOWING ITEMS FROM MOST TO LEAST IMPORTANT."



Note: 2012 Total n = 1,009; 2010 Total n = 1,014. Totals may not equal 100% because of rounding.
Source: J.P. Morgan Plan Participant Research 2012.

In fact, half of the respondents list paying monthly bills as their highest financial priority, with two-thirds of individuals listing it as one of their top-two financial priorities. Paying off mortgages and credit cards, building an emergency fund and saving for children's education also rank in people's top-six financial priorities.

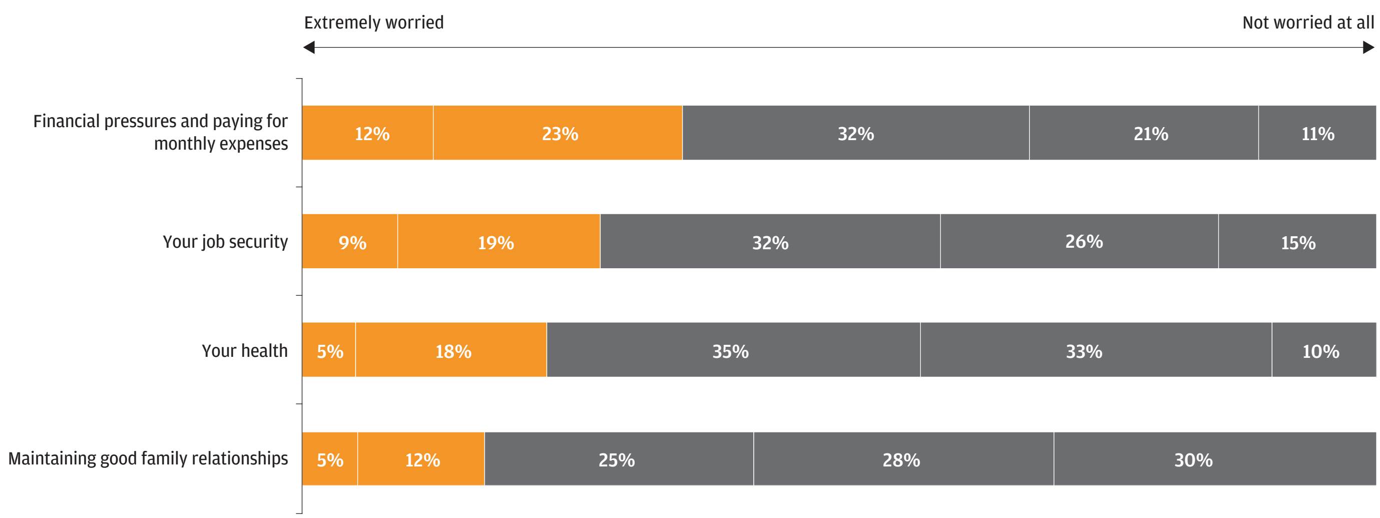
Clearly, the pressure of paying monthly bills is one of several factors hurting retirement savings. Paying off debt (such as monthly bills, credit cards or mortgages) far outstrips savings as a priority. About 37% of participants say they do not put more money into their 401(k) plans because they believe they would not be able to afford to meet their monthly living expenses as a result. But in a somewhat encouraging sign, the percentage of people who listed saving for retirement as a priority increased slightly, while the percentage of individuals who cited paying off credit cards as a priority slightly declined. This may be an indication that people are thinking more closely about long-term savings. In 2009, by contrast, saving for retirement was a top priority after the financial crisis forced many people to reset their financial priorities.

In some cases, financial pressures appear to be affecting employee productivity. Nearly 80% of participants say they worry about financial pressures at work. Among those who worry, one-third say that financial pressures consume them at work often or all the time, while another 45% say they sometimes worry about these pressures. Overall, participants spend more time worrying about financial pressures and how to pay their monthly expenses than they do about job security, their health or maintaining good family relationships (**Exhibit 3**).

While all individuals worry equally about their health and jobs, there are big differences among the participant personas on how much time they spend at work worrying about financial issues. Potential Savers tend to worry frequently and often during work hours (47% of the time), while Accidental Investors and the Mass Affluent worry less about financial issues (26% and 17% of the time, respectively).

Financial pressures and paying monthly expenses register as the largest source of worry—above job security and health

EXHIBIT 3: "HOW WORRIED ARE YOU ABOUT EACH OF THE FOLLOWING?"



Note: Total n = 1,009. Totals may not equal 100% because of rounding.
Source: J.P. Morgan Plan Participant Research 2012.

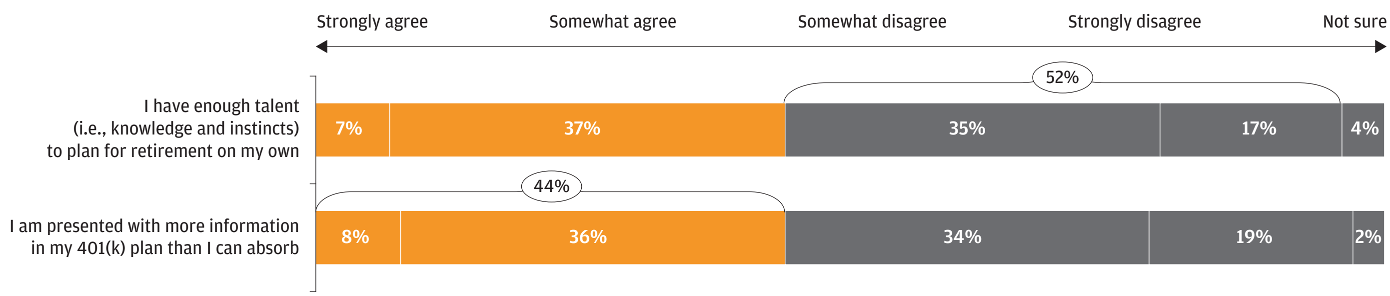
Participants lack confidence and interest in managing their retirement plan investments

Because of the financial pressures of paying bills and paying off debt, many workers clearly feel behind on their retirement savings goals. Less than one-third (30%) of respondents, for example, agree that their savings will last throughout their retirement. We also know from our research that most people feel overwhelmed about planning for retirement. Faced with a confusing array of complex choices, participants often end up making suboptimal investment decisions that may leave them inadequately diversified or overexposed to risky asset classes.

Despite their recognition of the value of 401(k) plans, many participants lack confidence in their ability to manage their retirement investments or are simply not interested in doing so. For example, even though three-quarters of participants say they check their overall balances, and almost as many say they examine how their account balances have changed since their last statements, they rarely make changes in their investments. In fact, less than half (45%) are confident that they know how they should adjust their monthly 401(k) contributions, and even fewer (35%) are confident in their ability to change their investment allocations over time. At the same time, about half (52%) of participants don't believe they have enough talent to plan for retirement on their own, and 44% of participants say they are already getting more information than they can absorb (**Exhibit 4**). Only a quarter of workers—primarily those older and affluent—say they are highly confident that they know how to allocate investments in their 401(k) plans to be financially ready for retirement (**Exhibit 5**).

Over half don't believe they have enough talent to plan for retirement on their own

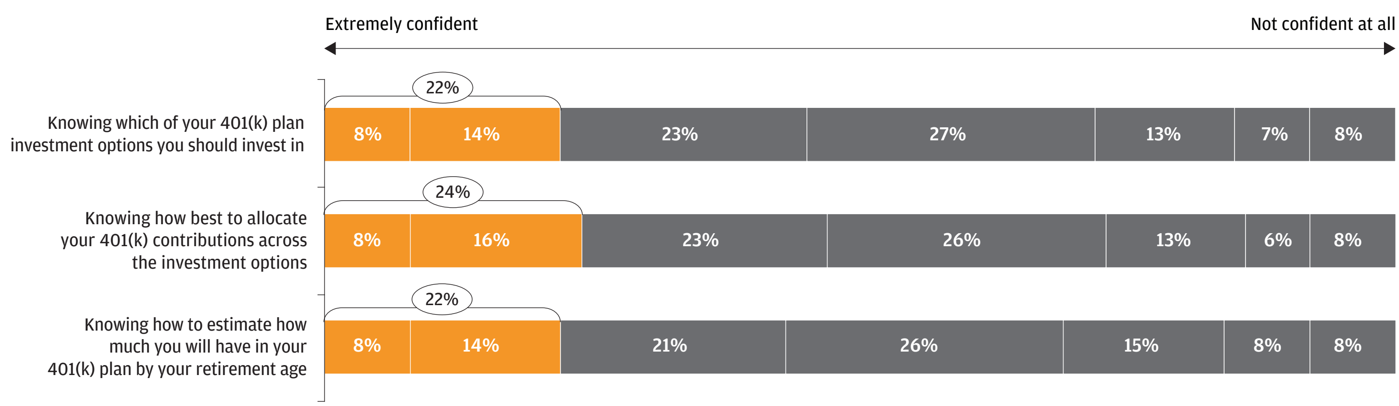
EXHIBIT 4: "TO WHAT EXTENT DO YOU AGREE OR DISAGREE WITH THE FOLLOWING STATEMENTS?"



Note: Total n = 1,009. Totals may not equal 100% because of rounding.
Source: J.P. Morgan Plan Participant Research 2012.

Only about a quarter are highly confident in their retirement knowledge

EXHIBIT 5: "HOW CONFIDENT ARE YOU IN YOUR KNOWLEDGE OF EACH OF THE FOLLOWING ASPECTS OF 401(K) INVESTING AND RETIREMENT PLANNING?"



Note: Total n = 1,009.
Source: J.P. Morgan Plan Participant Research 2012.

Is there a better way to provide advice?

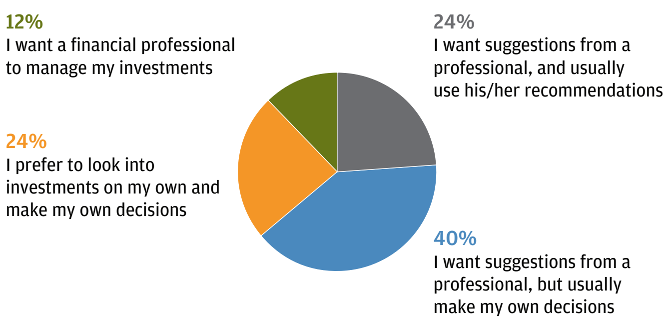
Given the amount of confusion and lack of confidence, it is not surprising that individuals want and need retirement advice. About three-quarters want professional advice on investing—including 12% who want to delegate the entire process to a professional (**Exhibit 6**).

Providing more written information to participants may not necessarily be the answer. While the majority of respondents (62%) say they would like more detailed advice on how much they should save in their 401(k) plans, almost three-quarters of respondents (65%) don't take the time to read all of the investment information that is already provided to them (**Exhibit 7**). Although most plan participants want advice, nearly half (48%) do not have access to professional help, either through their jobs or on their own.

The desire for advice supports the fact that individuals are clearly motivated to save for retirement. Only 14% of plan participants say they are not interested in preparing a financial plan for retirement, while about 40% of respondents say they are willing to spend time to plan for retirement, but just don't know how to get started. Meanwhile, 90% are willing to spend more time learning how to make better use of their 401(k) programs. Saving more for retirement would not take a good deal of sacrifice by most. When asked what they would give up to save an additional $100 dollars a month, the item most likely to be sacrificed is impulse buying: 30% would give this up, followed by 21% who would eat out less.

Most participants want some level of professional investment advice

EXHIBIT 6: "WHICH OF THE FOLLOWING STATEMENTS BEST DESCRIBES YOUR PREFERRED APPROACH TO INVESTING?"



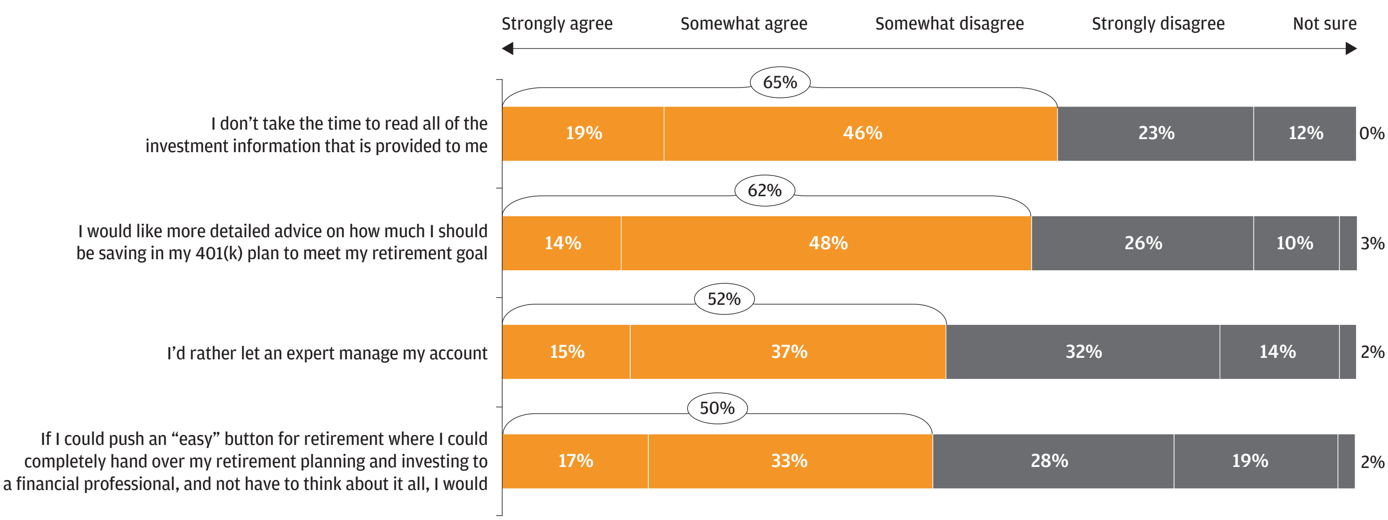
Note: Total n = 1,009.
Source: J.P. Morgan Plan Participant Research 2012.

There are differences in how individuals prefer to get advice in different ways

Many individuals would prefer to outsource the entire retirement-planning process. About half of survey respondents say they would prefer to just push an "easy" button for retirement to completely hand over their retirement planning

Most participants do not read the information provided and would like advice

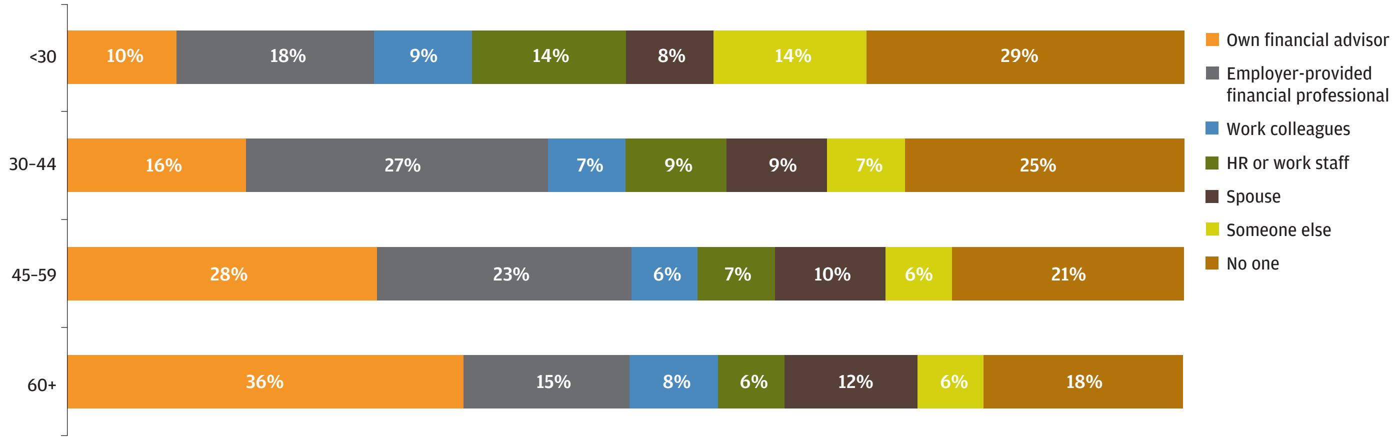
EXHIBIT 7: "TO WHAT EXTENT DO YOU AGREE OR DISAGREE WITH THE FOLLOWING STATEMENTS?"



Note: Total n = 1,009. Totals may not equal 100% because of rounding.
Source: J.P. Morgan Plan Participant Research 2012.

Individuals increasingly turn to financial advisors as they get older

EXHIBIT 8: "WHO ADVISES YOU ON YOUR RETIREMENT PLAN INVESTMENT AND SAVINGS DECISIONS?"



Note: Total n = 1,009. Totals may not equal 100% because of rounding.
Source: J.P. Morgan Plan Participant Research 2012.

and investing to a financial professional. In fact, when compared with older, wealthier savers, younger savers under the age of 30 are twice as likely to want to push the "easy" button. Older, wealthier savers are three times more likely to use their own financial advisors than are younger savers. Younger workers are also the most agreeable to wanting detailed advice on how much they should save in their 401(k) plans to meet their retirement goals, with 72% saying they strongly or somewhat agree with the idea of wanting more detailed advice.

Meanwhile, only 50% of the 60+ age group say they want more detailed advice. Part of the difference may be due to the fact that older participants may already have a relationship with a financial advisor or may think it is too late to do something different. The younger age group is also most likely to turn to their employer's human resources staff or to "someone else"—possibly social media or friends—for advice. Overall, as workers age, they increasingly turn to financial advisors and, to a lesser extent, their spouses for advice (Exhibit 8).

There are also differences in how women and men prefer to get and implement advice. Based on our analysis, women are more likely than men to hand over their investment planning to a financial professional, except for those in the 45-to-59 age group. Younger women, in particular, are nearly four times more likely to want to outsource their investment decisions than men of the same age (22% to 6%) and close to two-and-a-half times more likely to when they are closer to retirement (21% to 9%). Marital status or life events could be factors in the desire of women to outsource their investment planning: the percentage of women who prefer to manage their own investments jumps to its highest level (23%) in the 45-to-59 age group.

Women across all age groups are equally interested in getting professional suggestions and using those suggestions to make their own decisions. The findings suggest that women tend to be "verifiers"—they want professional advice and usually use that advice—far more than men in every age group, except for men in the youngest age group, who significantly outpace women of the same age in seeking advice (29% to 18%).

A similar pattern emerges when women are asked whether they receive retirement income projections from their employers. Men say they get a retirement projection from their employers about two-thirds of the time, while women say they get a projection about half the time. That trend stabilizes for women in the 49-to-59 age group; 71% of those women report getting a projection, compared with 70% of men of the same age.

Given the differences in how individuals prefer to get advice, creating targeted educational communications can be meaningful and effective, especially if those messages are reinforced over participants' working years. About two-thirds of participants say that it would be either extremely valuable or very valuable to have access to a program where they would get customized investment allocation recommendations based on their investments and spending goals in retirement.

Knowledge is power

PROVIDING INCOME PROJECTIONS CAN INCREASE PARTICIPANT SAVINGS RATES

On the journey to retirement, it helps to know where one is going. Based on our latest findings, most Americans don't have a clear idea of how much money they will need in retirement. In fact, the majority of people continue to underestimate what they will need to live comfortably in retirement. According to the 2008 Replacement Ratio Study by Aon Consulting, Americans' income replacement rate—which measures the percentage of gross, pre-retirement income that individuals need in order to maintain the same standard of living in retirement—was between 78% and 94%. Despite this industry statistic, four in 10 people believe they will need only between 50% and 74% of their pre-retirement income to live comfortably in retirement, and only 28% feel they are on track to save that amount, according to our 2012 study (**Exhibits 9A** and **9B**).

More participants are underestimating how much income they will need at retirement to maintain their standard of living, even as their confidence in their ability to save that amount declines

EXHIBIT 9A: *"WHAT PERCENTAGE OF YOUR PRE-RETIREMENT INCOME DO YOU THINK ...*

YOU'LL NEED TO LIVE COMFORTABLY IN RETIREMENT?"

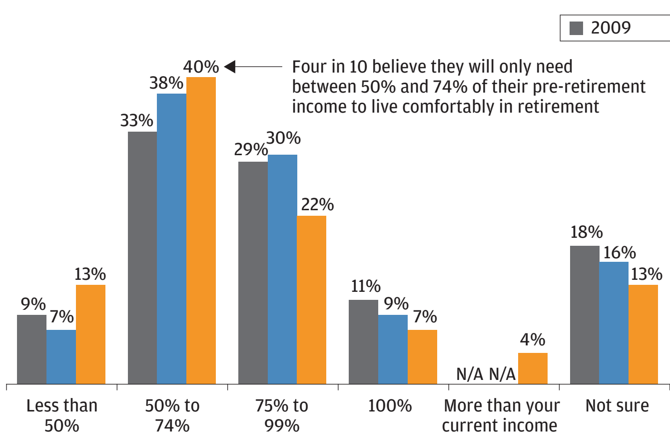
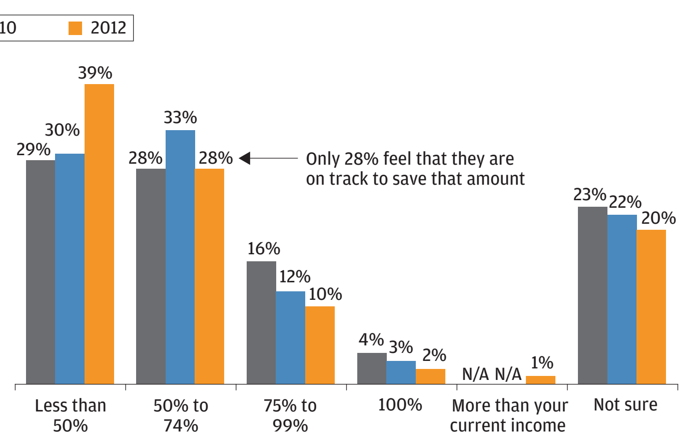


EXHIBIT 9B: *"WHAT PERCENTAGE OF YOUR PRE-RETIREMENT INCOME DO YOU THINK ...*

YOU ARE CURRENTLY ON TRACK TO RECEIVE IN RETIREMENT?"



Note: 2012 n = 1,009; 2010 n = 1,014; 2009 n = 1,077. Totals may not equal 100% because of rounding.

Source: J.P. Morgan Plan Participant Research 2012.

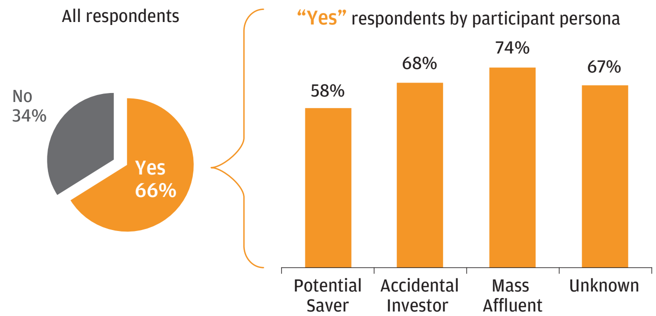
This discrepancy may lead some individuals to take a short-sighted approach to their retirement, with about 43% planning to figure out how to live off of whatever they have saved when they decide to retire (**Exhibit 10**). That percentage, however, has dropped five percentage points from our 2010 study. Another encouraging sign is that 57% of respondents in 2012 have either a specific percentage or a dollar target in mind for their retirement savings, an increase from 45% in 2010. Higher-income individuals earning an average of $170,000 or more in household income are among those most likely to have a specific dollar amount in mind.

Providing income projections can provide a road map

Providing retirement income projections may help workers develop more realistic expectations about what they will need to live on in retirement. About two-thirds currently receive a retirement income projection, but the results differ significantly based on age and income levels (**Exhibit 11**). While 74% of the Mass Affluent say they currently receive a retirement income projection, only 68% of Accidental Investors and 58% of Potential Savers recall receiving such projections. One reason behind the lower percentages could be that Potential Savers may not know where to get this information or may not work for employers that provide an income projection on their statements or websites. Accidental Investors or the Mass Affluent may also be inclined to pay more attention to these figures if they are available, or search plan providers' websites for them.

Two-thirds currently receive a retirement income projection

EXHIBIT 11: "DO YOU CURRENTLY RECEIVE A PROJECTION OF HOW MUCH MONEY YOU ARE PERSONALLY ON TRACK TO RECEIVE IN RETIREMENT?"

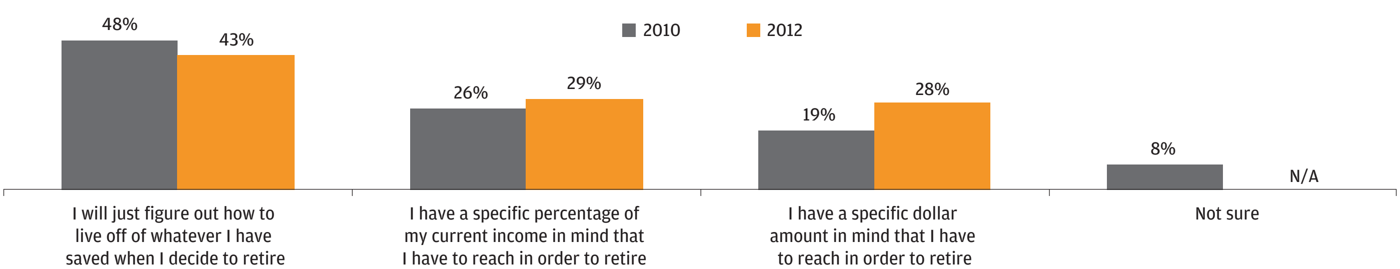


Note: Total n = 1,009.
Source: J.P. Morgan Plan Participant Research 2012.

Individuals who have identified a goal for retirement are, in fact, more likely to feel confident in their ability to meet this financial goal. A study of eligible employees who are exposed to their projected income at retirement on the J.P. Morgan recordkeeping platform shows that those participants subsequently increased their income replacement by 16% overall (**Exhibit 12A**, next page). Furthermore, the number of participants on track to receive at least a 70% income replacement increased by 125% from 2005 to 2012 (**Exhibit 12B**, next page). The largest drivers of these increases are the length of time a participant has been exposed to the projection and the interaction a participant has with modeling tools that explore different savings scenarios.

Just over 40% of participants plan to "wing it" in retirement

EXHIBIT 10: "WHICH STATEMENT BEST DESCRIBES YOUR RETIREMENT PLANNING?"



Note: 2012 n = 1,009; 2010 n = 1,014. Totals may not equal 100% because of rounding.
Source: J.P. Morgan Plan Participant Research 2012.

Participants exposed to projected income rates over time have had positive results

EXHIBIT 12A: OVERALL INCOME REPLACEMENT RATES (2005–2012)

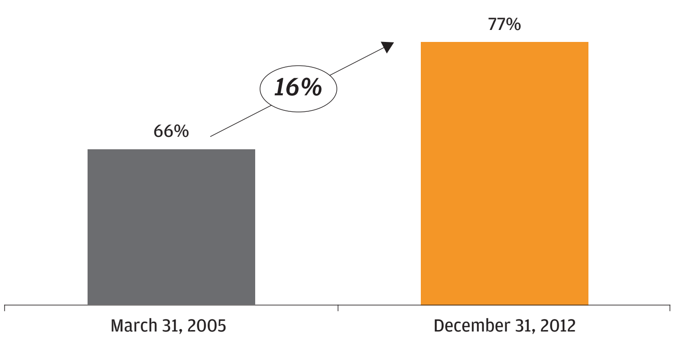
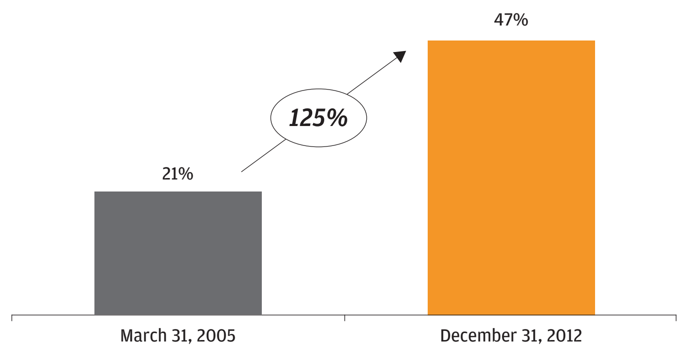


EXHIBIT 12B: PERCENTAGE OF PARTICIPANTS ON TRACK TO RECEIVE AT LEAST 70% INCOME REPLACEMENT (2005–2012)



Note: N = 800,021 participants. Source: J.P. Morgan Retirement Plan Services Proprietary Research.

Assumptions: Income replacement results reflect the experience of participants earning between $14,500 and $10 million annually who were contributing to their retirement plan as of December 31, 2012. Retirement age is 65. If over 62, retirement age would be current age plus three years. Based on information provided for annual salary, state of residence, hire date, date of birth and gender. If not provided, gender defaults to female. Tax filing status defaults to single if state of residency is the same as tax filing state. Includes Social Security, which is calculated based on normal Social Security retirement age, as per federal regulations. The assumed income growth rate is 5%. Income growth rate represents the average increase in salary expected over time, which is the approximate historical rate of growth (including inflation) for a typical person's salary. The projection considers the IRS annual compensation limit, indexed periodically. Contribution amount is based on current election in defined contribution plan. Annual retirement income estimate and initial risk category are calculated using the investments currently held in retirement plan account. Balances from brokerage account(s) or loan(s) will not be included in forecast. Income replacement calculation includes balances from other plans that are turned on for Retirement Dream Machine. Retirement Dream Machine is an investment education tool offered by J.P. Morgan Retirement Plan Services pursuant to the Department of Labor's Interpretive Bulletin 96-1.

The next evolution in retirement plan communications

Today, most plan sponsors continue to provide general communications to all eligible employees. Some have even begun to integrate more targeted, behavioral-based communications, looking at factors such as participation and savings rates, as well as the diversity of participants' investments. While these factors can lead to more tailored messages for participants, plan sponsors can create even more meaningful, effective communications by gaining a deeper understanding of the behaviors themselves—why participants save the amounts they do or why they select certain investments.

Building more effective communications starts by acknowledging that the "language of retirement" is not something in which most participants are fluent. Also most individuals do not think logically about their money; they typically think about it emotionally. Plan sponsors can simplify their messages not only to make sure that participants understand what their current level of savings means for them in retirement, but also to remove as many barriers to saving as possible. The basic message—"This is what you're on track to receive in retirement based on your current behaviors and here's what you need to do in order to make it better"—can make it crystal clear what participants do, indeed, need to do.

Providing participants with a so-called "easy" button, for example, is more likely to motivate them to take action. Explaining the logic behind why they need to save, the trends in investment history or dollar-cost averaging—while informative—is less likely to spur immediate action. Thinking about retirement savings and investing from a behavioral finance perspective can make it easier for participants to embrace the basic message.

The automatic 401(k)

COMBINING AUTOMATIC ENROLLMENT WITH AUTOMATIC CONTRIBUTION ESCALATION CAN HELP PUT MORE AMERICANS ON TRACK

In an effort to turn human inertia into positive savings habits, more companies are using tools such as automatic enrollment to get workers into 401(k) plans. Some employers are coupling automatic enrollment with automatic contribution escalation—which increases employee savings rates by a set amount, typically one percentage point a year—to get participants to double-digit savings rates as soon as possible.

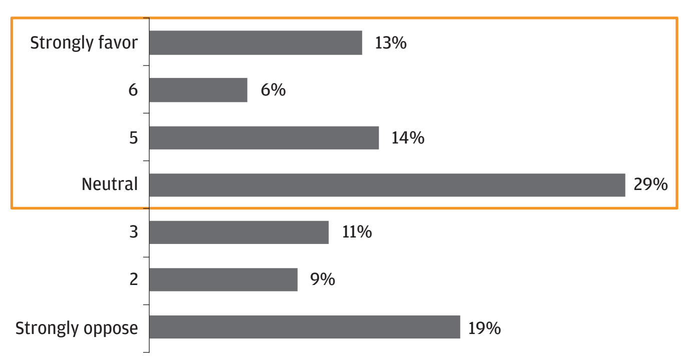
Automatic plan features can have an enormous impact on workers' retirement income and can significantly boost participants' chances of meeting retirement income goals. But their success depends on how plan sponsors implement these features within their DC plan. While the idea of automatic enrollment itself seems to have gained wide acceptance—with close to half of plans (43%) automatically enrolling eligible employees—there is often a disconnect between the plan sponsors' idea of appropriate savings levels (i.e., 10% or more) and their current automatic default rates, which typically start at 3% and escalate (when offered) to only 6%.[2]

In contrast to the robust rates that plan sponsors advocate, studies suggest that the combination of anemic default contribution rates and the ineffective adoption of automatic contribution escalation may well mean that most auto-enrolled participants are making insufficient contributions to meet their retirement income needs. Thus, the well-documented inertia that characterizes employee behavior when it comes to retirement saving can be a double-edged sword in the prevailing automatic enrollment environment. Automatically

[2] J.P. Morgan Plan Sponsor Research 2013.

Most individuals favor or are neutral on combining automatic enrollment with automatic contribution escalation in 401(k) plans

EXHIBIT 13: "TO WHAT EXTENT DO YOU FAVOR OR OPPOSE EMPLOYERS OFFERING BOTH AUTOMATIC ENROLLMENT AND AUTOMATIC CONTRIBUTION ESCALATION?"



Note: Total n = 1,009. Totals may not equal 100% because of rounding.
Source: J.P. Morgan Plan Participant Research 2012.

enrolled participants will likely remain stuck at inadequate savings levels for years due to low default deferral levels.

Combining automatic enrollment at higher levels (at least 6%) with automatic contribution escalation can increase the likelihood that participants will reach adequate deferral levels over time. According to DCIIA's 2012 Plan Sponsor Survey, of the plans that offer this combination, half saw it as a way to prevent participant inertia from derailing retirement savings, while almost all believed it could help participants achieve their retirement goals. Yet the survey found that only a small fraction of plans use automatic enrollment in conjunction with automatic contribution escalation. What's more, the percentage of plans offering automatic contribution escalation had not increased significantly from 2010 to 2012.[3]

Our findings show that there is strong employee support for automatic enrollment, especially among the more affluent, while the majority of workers say they favor or are neutral on the idea of combining automatic enrollment with automatic contribution escalation (**Exhibit 13**, previous page). While some plan sponsors may be concerned about combining these features in a robust way for fear of employee backlash, the opt-out rate for participants is relatively low. More than two-thirds of plans with automatic contribution escalation have opt-out rates lower than 10%, and half have opt-out rates of less than 5%, according to DCIIA's 2012 Plan Sponsor Survey. The opt-out rates are similar for plans with automatic enrollment.[4]

Since the passage of the Pension Protection Act of 2006, many plan sponsors have reported switching their qualified default investment alternatives (QDIAs) to target date funds (TDFs). According to our results, eight in 10 participants surveyed consider it important for their employers to offer TDFs. While using TDFs as the default option can improve participants' overall asset allocations, conducting a re-enrollment on top of that can be even more successful. A re-enrollment—which gives participants the opportunity to make a new investment election or be defaulted into the plan's QDIA—results in the highest adoption rates of these professionally managed vehicles.

In general, large plans, classified as plans with more than $250 million in assets, are apt to be "first movers" and proactively place participants on a strong savings and investing path by adopting new plan features such as re-enrollment, according to the J.P. Morgan 2013 Plan Sponsor Research. According to the study, about 7% of all surveyed plan sponsors and 14% of large plan sponsors with more than $250 million in assets conducted a re-enrollment.

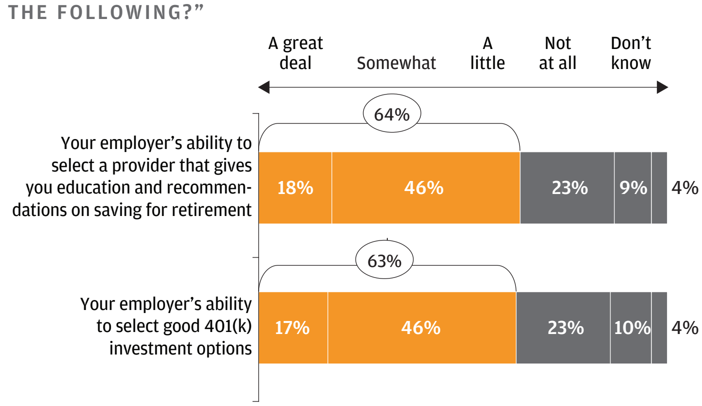
Re-enrollment can offer dual benefits for both plan sponsors and participants. Plan sponsors that conduct a re-enrollment are not only able to move more participants into well-diversified investments, they also may benefit from fiduciary safe harbor by doing so. According to research conducted in 2011 by J.P. Morgan Retirement Plan Services, plan sponsors that conducted a re-enrollment experienced an adoption rate of 40% to 60% into TDFs, regardless of the type and size of the plan and whether the plan sponsor implemented other plan changes, such as changing providers. The majority of participants who were defaulted into the target date funds remained there two years later.

Participants have a high level of trust in employers

Another significant finding is that two-thirds of survey respondents have a high level of trust in their employers' ability to select both a retirement plan provider and good 401(k) investment options (**Exhibit 14**). This high level of trust, coupled with the fact that people are favorable or neutral on the idea of combining automatic features, means that participants, many of whom feel overwhelmed by the retirement planning process, are more likely to be supportive of companies that make it easier for them to save through these automatic tools.

Participants have a high level of trust in their employers

EXHIBIT 14: "HOW MUCH TRUST DO YOU HAVE IN EACH OF THE FOLLOWING?"



Note: Total n = 1,009.
Source: J.P. Morgan Plan Participant Research 2012.

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[3] Defined Contribution Institutional Investment Association (DCIIA), "Plan Sponsor Survey 2012: Action Needed to Drive Better Participant Outcomes," 2012.

[4] Ibid.

Participant personas

USING PARTICIPANT PERSONAS TO EVALUATE ENGAGEMENT LEVELS

At some point, people start to actively engage with their 401(k) plan, usually as they get closer to retirement or when they leave a job. Another factor is wealth: The higher the account balance, the more engaged people tend to be with their plans. At the same time, hesitancy grows with age. While people close to retirement remain highly engaged, they also become less active in making transactions.[5] One trigger for engagement is the ability to take a distribution. As individuals get closer to taking distributions, they also tend to want more advice. While 45% of participants never call their retirement plan's recordkeeper during their working years, when they take a distribution, 86% will call at least once and 68% will call at least twice.[6]

The lifecycle of advice

When participant personas—which can be based on age, income levels and historical engagement levels—are taken into account, plan sponsors can get more granular and specific in the way they communicate with participants.

As discussed earlier, individuals turn to a variety of sources for advice (Exhibit 15, next page). More than 50% of the Mass Affluent and Accidental Investors rely on some type of advisor, a significantly higher proportion than Potential Savers. Overall, about a quarter of all respondents use no one. While the Mass Affluent are more likely to use their own advisors, Accidental Investors are about split between using financial advisors provided by their employers and relying on their own advisors. Potential Savers, meanwhile, more than any other persona, are also more likely to rely on their employer's human resources staff, while Accidental Investors are most likely to rely on their spouses for advice.

The progression from turning to human resources staff early in one's career to relying on financial advisors later in life can partly explain the lifecycle of advice. Younger, less experienced workers may be unaware of the professional help they can get through work. At the same time, they are not embarrassed to go to their human resources departments for help. This may signal that companies with a high population of Potential Savers should consider offering a form of professional advice targeted to this group, since these people are more likely to use this option than to pay someone on their own. Meanwhile, as Accidental Investors age and go through life-changing events—marriage, divorce, children and/or job changes—they graduate to having their own advisor as they

5 Based on J.P. Morgan participant data; data as of December 2012.

6 Based on J.P. Morgan Retirement Plan Services Product Development, 2009 and 2010 data.

look at their lives from a more holistic financial perspective. At the same time, they increasingly turn to their own spouses for advice. Finally, as the Mass Affluent get closer to retirement, they are likely to still want and need advice, either from their own advisor or from one provided through their employers, for help in navigating their drawdown strategies.

There are some similarities across all income and age groups. When asked to define their investing approach, each persona's largest choice was, "I want suggestions from a professional, but usually make my own decisions."

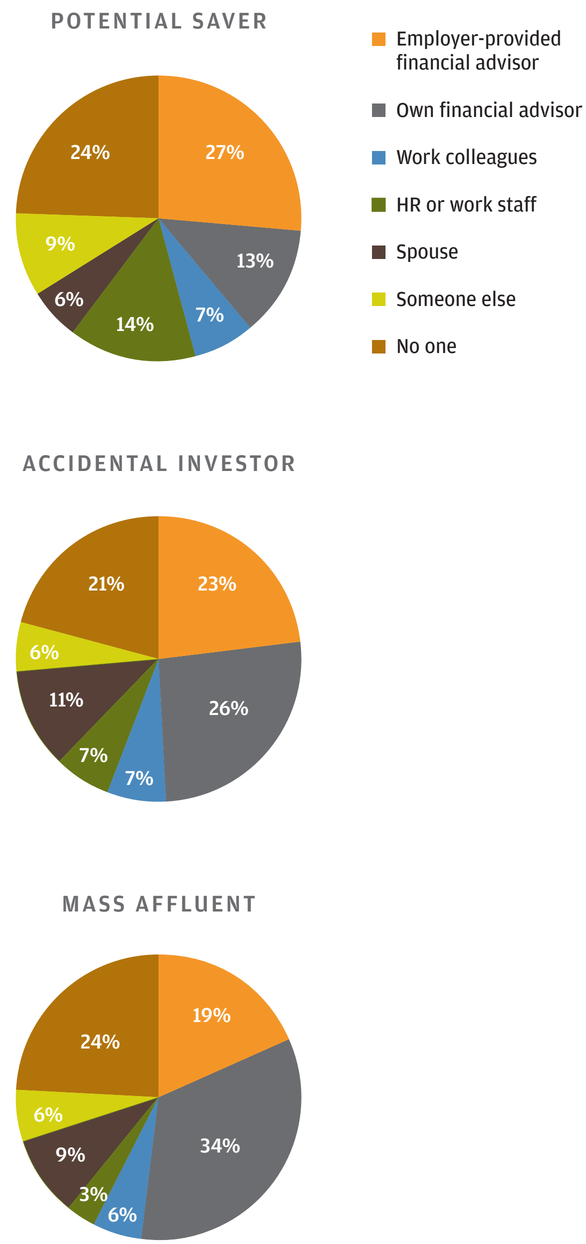
Education on the drawdown strategies

People in this study also express a great deal of interest in education on how to invest and manage their 401(k) plan assets for income once they are retired. For example, about 70% are interested in obtaining guaranteed lifetime income and 23% are interested in information on how to invest after retirement. Potential Savers are twice as likely to be interested in a retirement annuity as the Mass Affluent, which may be due to the former group's lack of savings and the lure of secure and steady income. The older, more financially secure participants tend to express more concern about maintaining flexibility and freedom over their investments.

Helping to simplify the complexities around retirement planning at a time when workers are likely to be most engaged with their plans should create more meaningful results. Providing income replacement projections and communications that explain retirement income, among other things, will provide a basic understanding of what is possible for participants.

Participants seek advice from a variety of sources

EXHIBIT 15: "WHO ADVISES YOU ON YOUR RETIREMENT PLAN INVESTMENT AND SAVINGS DECISIONS?"



Note: Total n = 1,009. Totals may not equal 100% because of rounding.
Source: J.P. Morgan Plan Participant Research 2012.

Implications for plan sponsors

TAKING A HOLISTIC VIEW, IMPLEMENTING AUTOMATIC PLAN FEATURES AND CREATING TARGETED MESSAGES CAN LEAD TO MEANINGFUL CHANGE

There are several key findings in this study that have implications for plan sponsors. These findings can help plan sponsors improve the retirement outcomes of their employees, as well as shed more light on key business considerations of interest to companies.

Balancing the significant benefits with the potentially higher costs of an aging workforce

As more workers delay retirement, companies have several considerations to keep in mind. From an employer's perspective, helping workers reach their retirement goals and retire when they want to should lead to a more satisfied and productive workforce. Companies can gain significant benefits by having a more tenured and experienced workforce. At the same time, employers must anticipate and develop business practices to accommodate and train older workers, while assessing any additional costs associated with an older workforce (i.e., wages or the increased cost of health insurance). As discussed earlier, Potential Savers have an average gap of seven years between when they want to retire and their expected retirement age, while Accidental Investors and the Mass Affluent expect to work an additional four and two years, respectively, to their "realistic" retirement ages. Just by using simple math—assuming average annual income levels and basic benefits assumptions and then multiplying those costs by the number of additional years in the workforce—companies can get an idea of the potential costs they will have to assume if a significant portion of their employees cannot afford to retire for years after they want to.

Taking a holistic view of workers' financial health

Financial pressures rank as one of the top concerns among employees, especially younger workers, who typically worry in the workplace more frequently than their older, wealthier co-workers about debt and bills. Given the interconnectedness of individuals' physical, emotional, environmental and financial well-being, plan sponsors should take a broader look at their participants' needs and "financial wellness." By doing so, companies can expand the range of financial advice and solutions in the workplace, ultimately helping to improve productivity.

Implementing automatic tools in plan designs

Combining automatic plan design features, such as automatic enrollment and automatic contribution escalation, can help individuals get to double-digit savings levels and do so more quickly. Conducting a re-enrollment on top of that can also move a greater percentage of a company's workforce into a more appropriate asset allocation. We believe plan sponsors should consider automatically enrolling workers at a default contribution rate of at least 6%, rather than the current industry standard of 3%, and increasing deferral rates by two percentage points a year to at least 10% to help get people to a comfortable level of replacement income in retirement. While some companies may be hesitant about combining automatic features, the reality is that few workers opt out of these features. Supplementing 401(k) plans with some form of advice and guidance, which is what participants—regardless of age or income—say they value, can help people understand what they need to save to get to a comfortable retirement.

Projecting into the future

Providing projected retirement incomes for participants throughout their working years can help workers develop realistic expectations about what they will need to save for retirement. Since our findings underscore the fact that most people underestimate the income they will need to live comfortably in retirement, exposing workers to projected income levels over a multiyear period may spur them to save more. Making income replacement projections easy to understand and relevant to the participants could also help boost their savings, while increasing the likelihood that they will invest in a diversified strategy.

Customized, targeted messages are more likely to motivate individuals to take action

As we have seen, there are significant differences among employees based on factors such as age, income and overall engagement level with their plans. We know from our research that younger individuals value more detailed advice on how much they should be saving in their 401(k) plans. At the same time, they are also less likely to use financial advisors and typically more likely to use other sources or their human resources staff for advice. By using such data to create targeted communications, plan sponsors are likely to see higher response rates.

The bottom line

Our latest research on 401(k) participant attitudes and behaviors underscores and confirms the broad findings of our earlier studies: Many individuals lack the confidence and desire to manage their retirement savings and want professional help with their investment decisions. But a one-size-fits-all approach isn't likely to work for most participants. Rather, our findings suggest that tailored advice—delivered to workers at a time when they are more likely to be receptive to it—may spur workers to take action to increase their savings or invest in more diversified solutions. Companies that combine automatic contribution escalation with automatic enrollment and re-enrollment can also get more of their workers to save at double-digit rates and be appropriately invested. While challenges remain for retirement savers, including day-to-day financial pressures and inertia, there are signs that people are starting to recognize the need to make saving for retirement more of a top priority.

TARGET DATE FUNDS: Target date funds are funds with the target date being the approximate date when investors plan to start withdrawing their money. Generally, the asset allocation of each fund will change on an annual basis, with the asset allocation becoming more conservative as the fund nears the target retirement date. The principal value of the fund(s) is not guaranteed at any time, including at the target date.

Certain underlying funds of target date funds may have unique risks associated with investments in foreign/emerging market securities and/or fixed income instruments. International investing involves increased risk and volatility due to currency exchange rate changes; political, social or economic instability; and accounting or other financial standards differences. Fixed income securities generally decline in price when interest rates rise. Real estate funds may be subject to a higher degree of market risk because of a concentration in a specific industry, sector or geographical sector, including, but not limited to, declines in the value of real estate, risk related to general and economic conditions, changes in the value of the underlying property owned by the trust and defaults by the borrower. The fund may invest in futures contracts and other derivatives. This may make the fund more volatile. The gross expense ratio of the fund includes the estimated fees and expenses of the underlying funds. A fund of funds is normally best suited for long-term investors.

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