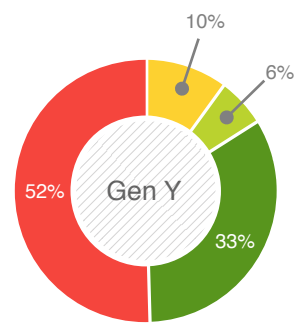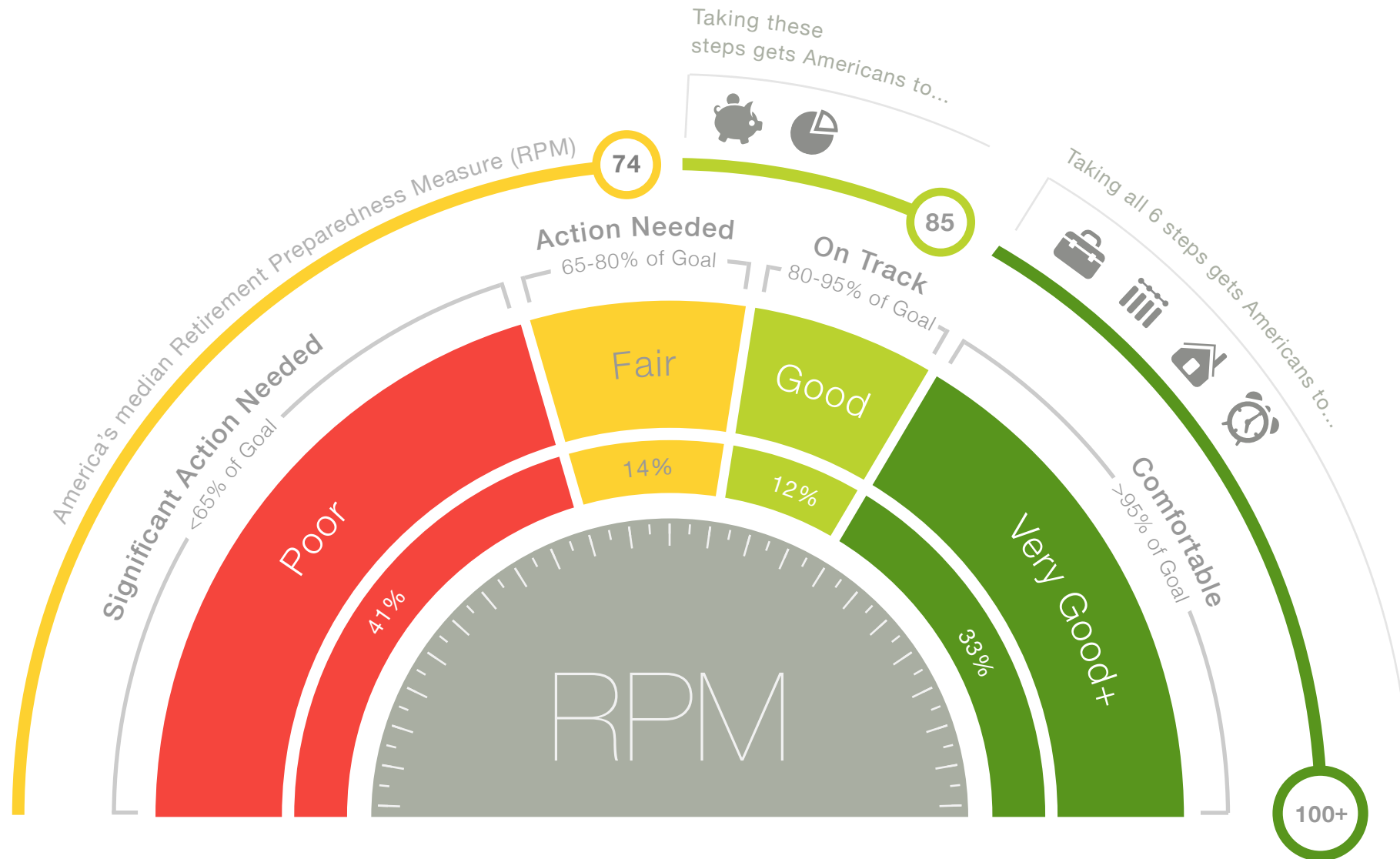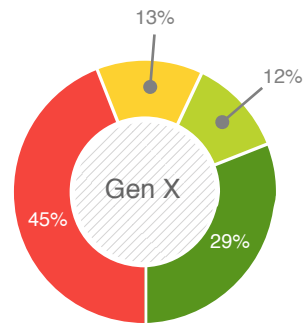# 01

How ready is America to retire?

Fidelity's new Retirement Preparedness Measure (RPM) puts 55% of Americans in the yellow or red, in danger of not fully covering even estimated essential expenses like housing, health care, and food in retirement. The good news: The steps below can help to improve the RPM and get most to green.
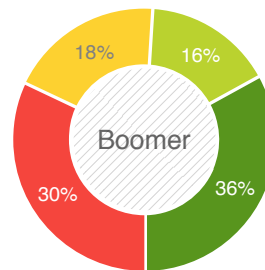
The RPM captures the percentage of total estimated retirement expenses that working Americans are on track to cover, based on a survey of more than 2,200 households and Fidelity's retirement planning methodology. Fidelity then evaluates how different steps can improve estimated retirement readiness.

Taking these steps gets Americans to...

Taking all 6 steps gets Americans to...

74

85

100+

America's median Retirement Preparedness Measure (RPM)

Significant Action Needed
<65% of Goal

Action Needed
65-80% of Goal

On Track
80-95% of Goal

Comfortable
>95% of Goal

Poor
41%

Fair
14%

Good
12%

Very Good+
33%

RPM

Overall Preparedness

Poor | Score of <65%

Fair | Score of 65–80%

Good | Score of 80–95%

Very Good | Score of >95%

Accelerators

Raise savings

Revisit asset mix

Retire later

Return to work part time in retirement

Reallocate part of savings into an annuity

Realize home equity

Gen Y
10% · 6% · 33% · 52%

Gen X
13% · 12% · 29% · 45%

Boomer
18% · 16% · 36% · 30%

● Gen Y median score is at **62**   ● Gen X median score is at **71**   ● Boomer median score is at **81**

With limited access to traditional pension plans, it's no wonder that Gen Y finds itself in the red. Their savings rate is quite low. Many are investing far too conservatively for their age. Others are expecting to retire in their early 60s, which means they would need to save more.

But Gen Y has an advantage: time. Boosting its savings rate—including any employer contribution—to 15% and investing with an age-appropriate mix of stocks and bonds moves its median score from red to green. Delaying retirement age to capture full Social Security benefits boosts them even further.

Taking these steps gets Gen Y to...

Taking all 6 steps gets Gen Y to...

Gen Y Retirement Preparedness Measure (RPM)

62

84

100+

Significant Action Needed
<65% of Goal

Action Needed
65-80% of Goal

On Track
80-95% of Goal

Comfortable
>95% of Goal

Poor

Fair

Good

Very Good+

52%

10%

6%

33%

RPM

Overall Preparedness

- Poor | Score of <65%
- Fair | Score of 65–80%
- Good | Score of 80–95%
- Very Good | Score of >95%

Accelerators

- Raise savings
- Revisit asset mix
- Retire later
- Return to work part time in retirement
- Reallocate part of savings into an annuity
- Realize home equity

Asset Allocation
52% have 50% or less of their investments in stocks—which may be too conservative for their age.

Savings Rate
67% are saving less than 10–15%, the minimum level Fidelity recommends, even though they are less likely to have pensions than boomers.
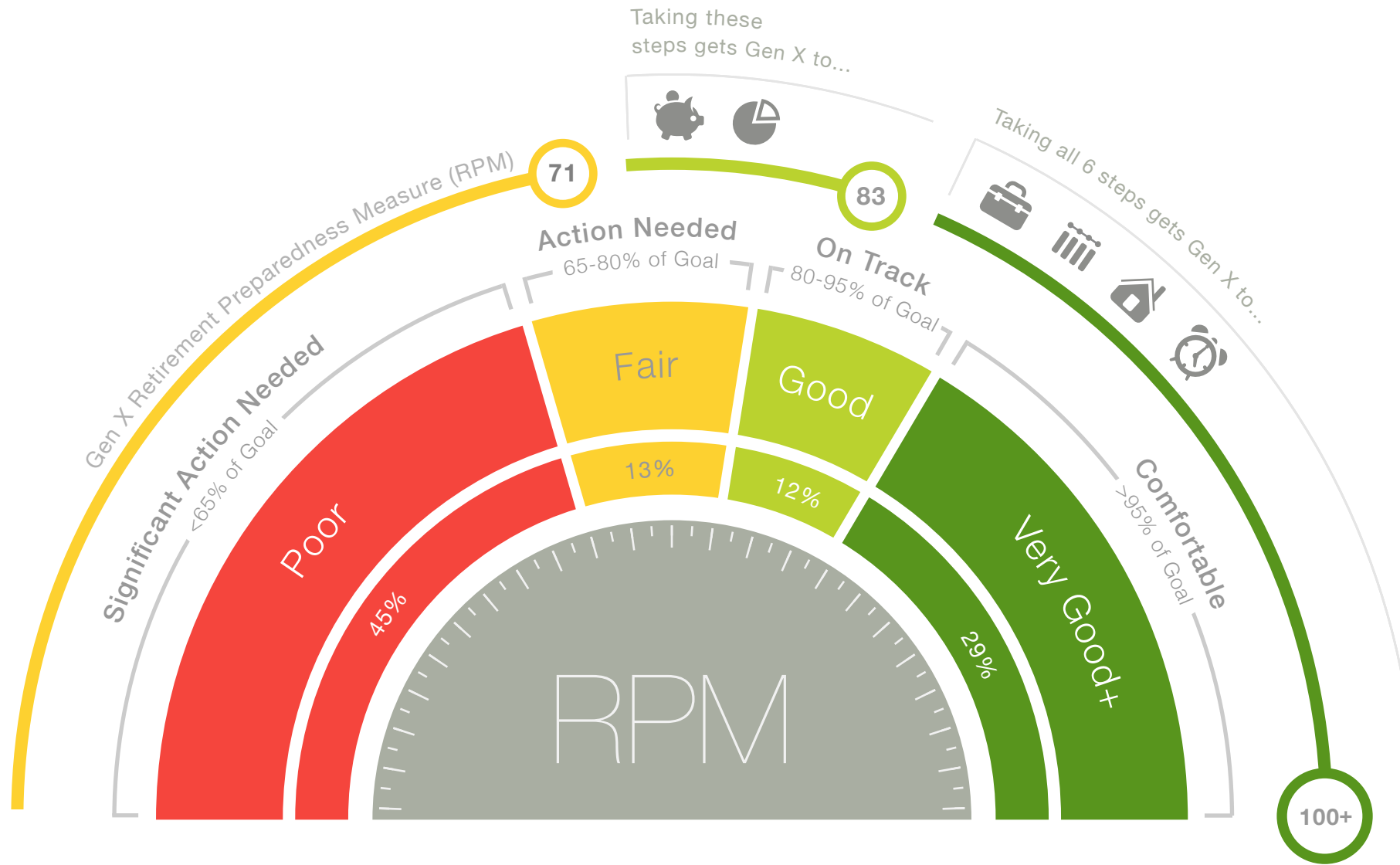
Retirement Age
64 is the average age when Gen Y expects to retire, though they could max out on Social Security at 70.

Generation X
Born 1965–1977

Gen X falls in the yellow, better off than Gen Y but still not on track to meet retirement needs. Perhaps competing goals have gotten in the way, like buying a house or funding children's education. Gen X's RPM is hurt by a low savings rate, not enough stocks for growth potential, and expectations of early retirement.

A key to success for Gen X is prioritizing retirement saving and an asset mix with enough stocks for long-term growth potential. That alone boosts Gen X's median RPM from yellow to green. Many in Gen X would also benefit from delaying Social Security to age 70 to maximize benefits.

Taking these steps gets Gen X to...

Taking all 6 steps gets Gen X to...

Gen X Retirement Preparedness Measure (RPM)

71

83

Action Needed
65-80% of Goal

On Track
80-95% of Goal

Significant Action Needed
<65% of Goal

Fair

Good

Comfortable
>95% of Goal

13%

12%

Poor

45%

Very Good+

29%

RPM

100+

Overall Preparedness

Poor | Score of <65%

Fair | Score of 65–80%

Good | Score of 80–95%

Very Good | Score of >95%

Accelerators

Raise savings

Revisit asset mix

Retire later

Return to work part time in retirement

Reallocate part of savings into an annuity

Realize home equity

Asset Allocation
40% have 50% or less of their investment in stocks—too conservative for their age.

Savings Rate
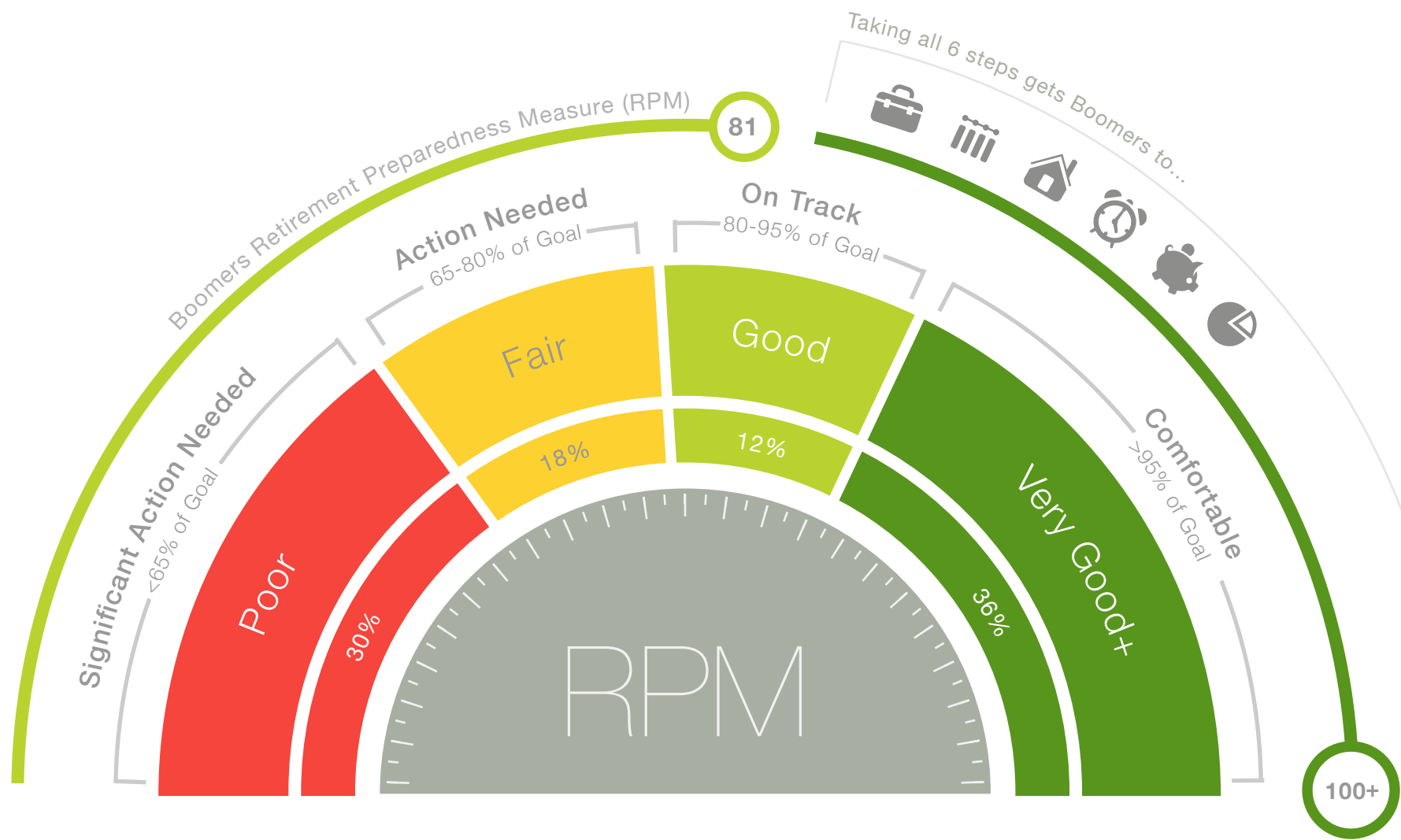59% are saving less than 10–15%, the level Fidelity recommends.

Retirement Age
65 is the average age when Gen X expects to retire, though they could max out on Social Security at 70.

Baby Boomers
Born 1946–1964

The median baby boomer is on track to meet 81% of estimated retirement expenses, enough to cover the basics and move into the green. But boomers, too, can improve their RPM. With less time before retirement, however, saving more and adjusting their asset mix has less impact than for Gen X and Gen Y.

For boomers, the most powerful RPM accelerator is delaying retirement to the point when they can receive full Social Security benefits, between 66 and 67. Other steps that can help: working part time in retirement, tapping home equity, and reallocating a part of savings into a lifetime fixed-income annuity.

Taking all 6 steps gets Boomers to...

Boomers Retirement Preparedness Measure (RPM)

81

Action Needed
65-80% of Goal

On Track
80-95% of Goal

Significant Action Needed
<65% of Goal

Comfortable
>95% of Goal

Fair

Good

Poor

Very Good+

30%

18%

12%

36%

RPM

100+

Overall Preparedness

🟥	Poor	Score of <65%
🟨	Fair	Score of 65–80%
🟩	Good	Score of 80–95%
🟩	Very Good	Score of >95%

Accelerators

- Raise savings
- Revisit asset mix
- Retire later
- Return to work part time in retirement
- Reallocate part of savings into an annuity
- Realize home equity

Asset Allocation
48% have 50% or less of their investment in stocks—still conservative for their age.

Savings Rate
49% are saving less than 10–15%, the minimum level Fidelity recommends.

Retirement Age
66 is the average age they expect to retire, though they could max out on Social Security at 70.

Next Steps

How do you get on your green line to retirement? Everyone's road is different, but saving early and often is key. As a rule of thumb, we suggest at least 10–15% of your income, including any employer contribution. An investment mix with growth potential and realistic retirement age are also important.

The longer you can delay Social Security, the bigger your monthly benefit (up to its maximum at age 70), and the longer you have to grow your savings. Other strategies include tapping home equity, working part time, or reallocating a part of savings into a lifetime fixed-income annuity.

Generation Y	Generation X	Boomers

Start early

Put time to work for you by saving early and investing for long-term growth potential.

- Save as much as possible in your 401(k), HSA, IRA, and other workplace savings plans.
- Make sure you have growth potential with an age-appropriate allocation to stocks.

Put pedal to metal

Continue to focus on long-term growth and try to boost your savings.

- Prioritize retirement savings over other savings goals.
- Max out on tax-advantaged savings in 401(k), HSAs, and IRAs.
- Invest for growth potential with an age-appropriate allocation to stocks.

Shift gears

Now is the time to shift your focus and fine-tune your retirement income plan.

- Ramp up savings. Make catch-up contributions to 401(k), HSAs, IRAs.
- Consider postponing retirement or working part time in retirement.
- Think about tapping home equity or annuitizing some savings.

About the Fidelity Retirement Savings Assessment

These findings are the culmination of a yearlong research project with Strategic Advisers, Inc., a registered investment adviser and a Fidelity Investments company, which analyzed the overall retirement readiness of American households, based on data such as workplace and individual savings accounts, projected Social Security benefits, home equity, and pension benefits. The analysis for working Americans projects the income replacement rate for the average household, compared with preretirement income, and modeled the estimated effect of specific steps to help improve readiness based on the anticipated length of retirement.

Data for the Fidelity Investments Retirement Savings Assessment (RSA) was collected through a national online survey of 2,265 working households earning at least $20,000 annually with respondents aged 25 and older, from June through October. Data collection was completed by GfK Public Affairs and Corporate Communications using GfK's Knowledge Panel,® a nationally representative online panel. Fidelity Investments was not identified as the survey sponsor. GfK Public Affairs and Corporate Communication is an independent research firm not affiliated with Fidelity Investments.

About the Retirement Preparedness Measure

The retirement preparedness measure (RPM) attempts to reflect all reported retirement investment assets, retirement guaranteed income sources, and earned income in retirement. The score illustrates the percentage of the retirement income goal we estimate a given population is on track to replace. That target is an estimate based on income brackets using Fidelity research and data from the Bureau of Labor Statistics Consumer Expenditure Survey, and is adjusted for stated health expectations using Medical Expenditure Panel Survey data, U.S. Department of Health and Human Services data, and Fidelity research, and lifestyle expectations based on data from the International Council on Active Aging, Bureau of Labor Statistics Consumer Expenditure Survey, and Fidelity research. The survey assumes a planning horizon of 92 for a male and 94 for a female, based on the Society of Actuaries Annuity 2000 table. Actual individual circumstances and results will vary.

The assessment calculations rely on the proprietary asset-liability modeling engine of Strategic Advisers, Inc., which has been providing asset allocation, retirement, and tax-sensitive investment management services to Fidelity's individual and institutional clients for nearly two decades. The same modeling engine is used in Fidelity's retirement planning tools. Using its modeling engine, Strategic Advisers generates the percentage of potential preretirement net income that each individual American household surveyed is likely to replace upon retirement. Strategic Advisers uses Monte Carlo simulations for this projection and uses down-market assumptions—meaning that in the simulations, actual results would have been better 90% of the time and worse 10% of the time. The RPM represents the median (or midpoint) for accumulator households and income and age cohorts.

The hypothetical illustrations are for educational purposes, do not reflect actual investment results, and are not guarantees of future results. Actual investment fees or expenses are not reflected in these hypothetical illustrations. An investor's actual account balance and ability to withdraw assets during retirement at any point in the future will be determined by the contributions that have been made, any plan or account activity, and any investment gains or losses that may occur.

What the retirement score indicates

- **Dark Green: Very good or better (95 or higher).** Even in a down market, these households are on track to cover 95% or more of discretionary expenses, such as travel, and essential expenses, including health care, housing, and food.
- **Green: Good (80-95).** On track to cover at least estimated essential expenses, but not discretionary expenses like travel. (The survey assumes 80% of estimated retirement expenses are essential.)
- **Yellow: Fair (65-80).** Not on track to sufficiently cover all essential retirement expenses in a down market. Modest adjustments to planned lifestyle are likely.
- **Red: Poor (less than 65).** Not on track to sufficiently cover all essential retirement expenses in a down market. Significant adjustments to planned lifestyle are likely.

Assumptions and impact of hypothetical changes

Investment mix: The study looks at the reported asset mix from the survey results and estimates the potential effect of adjusting the asset allocation for investors who are more conservatively or aggressively invested than our age-based investing guidelines would suggest. The results are then adjusted to account for the long-term investment performance potential of an age-appropriate asset allocation.

Enroll in an automatic increase program: The base results reflect the reported level of annual savings contribution in the survey results—the national median savings rate was 7%. The automatic increase program assumes a 1 percentage point annual increase up to a combined employer/employee cap of 15%. The results are then adjusted to reflect the potential impact of the increased savings and investment potential.

Retirement age/delay retirement: The base score reflects the reported planned retirement age—the median reported planned retirement age was 65. The option to delay retirement adds two years to the projected working life reported by each individual and the score is adjusted based on the assumption that current earnings trajectory, savings, and investment behavior is extended for those two additional years.

Work part time in retirement: The base score assumes that all work and income from work ceases in the year of retirement. The work part-time in retirement option adds a percentage of the reported earned income and a duration of part-time work based on each individually stated retirement age from the survey. The maximum duration is five years of part-time work and the minimum duration is one year.

Annuitize: The annuitize option assumes 40% of the individual's investable assets are invested in a single-life fixed-income annuity with an annual 2% cost-of-living adjustment and a 10-year guarantee period. Age at annuitization is assumed to be 67 for Generations X and Y and 66 for boomers. Results are based on best available male rates as of August 2013 from lifetime fixed-income annuities available through Fidelity Insurance Agency, Inc., and issued by third-party insurance companies. A guarantee period provides annuity income through a specified date even if no annuitant lives to the end of the guarantee period. **Guarantees are subject to the claims-paying ability of the issuing insurance company.**

Downsize: The base score assumes that the retiree maintains his or her current housing situation. The downsize option assumes the sale of the home and repurchase of a home that frees up 25% of the projected equity for each individual survey participant at the time of sale based on reported value in the survey. The equity is then reinvested as part of the retirement portfolio.

All of the above: Combines the effects of each accelerator described above.

Diversification/asset allocation does not ensure a profit or guarantee against loss.

Investing involves risk including the risk of loss.