Testimony
of

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Opening Statement

Chairman Brown, Ranking Member Toomey, and members of the committee, good morning, and thank you for this opportunity today.

My name is John Sweeney, and I am an Executive Vice President at Fidelity Investments, responsible for the retirement and investing strategies we develop for the investors we serve. At Fidelity, we have the privilege of helping more than 23 million people save for their financial goals, including retirement through workplace and individual savings vehicles such as 401(k)s and IRAs.

Fidelity takes very seriously the responsibility to help ensure that our investors are well prepared for key life events. Like you, we want to help people be more confident, make clearer decisions and achieve better results for their families when it comes to retirement. And at Fidelity, we are passionate about sharing our expertise and insights to accomplish that, from providing basic education and guidance on how and where to save …to working directly with investors to help them gain better control and understanding of their investments, Fidelity has a deep understanding of what will help Americans be ready for retirement and to meet other financial goals.

Given our position as the nation's leading provider of retirement services, Fidelity also has a solid understanding of what elements of the nation's private retirement system are working well, and what needs improvement. I am happy that I have the opportunity to share some of these insights with you today.

A comprehensive approach and solid foundation is needed.

When investors ask themselves "How prepared am I for retirement?", they consider a spectrum of savings vehicles, including Social Security, pensions, personal savings, home ownership and health care, among others. While each area has its challenges, I believe policymakers are in a position to help ensure we build on the strengths of our public and private systems and not overlook hidden opportunities (like the positive impact private retirement savings has on economic growth). A recent study released by the American Benefits Council, the American Council of Life Insurers and the Investment Company Institute notes that retirement assets provide more than $20 trillion in private investment capital in American businesses, with more than $5 trillion coming from employer-sponsored defined contribution accounts.

When we at Fidelity think about the role that our products and services play in the overall success of the private retirement system, we think about four key stakeholders:

- Government, which provides Social Security, Medicare and rules and oversight of the private retirement savings system
- Employers, which provide workplace benefits to their workers, including retirement savings plans and health savings accounts
- Individual Investors, who are making decisions about how they will save and invest now and spend later to cover their family's financial needs

- Financial Service Providers, like Fidelity, which offer a range of workplace savings plans, investment options, financial guidance and advice, and other services to companies and their employees.

All these parties must work together in order to have a sustainable and stable retirement system. In addition to meeting individual financial goals, the success of the American retirement system is a critical component of a healthy economy. So the earlier we can begin to implement positive changes in the system, the more impactful they will be for future generations of retirees. Success in retirement and other long-term financial goals requires a long-term view, and we applaud the Committee for exploring these critical issues.

First, the good news. Workplace retirement savings plans continue to be the foundation for America's private retirement savings. While it was created as a supplement to other retirement savings, our defined contribution system is working well for many people, provided they:

1) Enroll early in their workplace plan;

2) Save consistently at sufficient levels and increase their contribution rate as their salary grows;

3) Diversify their investments in an age-appropriate , diversified asset mix, consistent with risk tolerance and financial situation; and

4) Stay engaged with their plan – sticking with it through up and down markets, and not taking out a loan or cashing out when they change jobs.

Our latest data from Fidelity recordkept workplace plans show that for those participants who have been enrolled in a plan and continuously saving for 10 years, the average account balance has reached $223,100, up from $53,400 ten years prior – an annual increase of more than 15%. And according to EBRI, for those just entering retirement who have both a 401(k) and IRA, the average combined balance is just shy of $400,000 which speaks to the power of saving through both vehicles. These underscore the power of consistent savings through varied markets and through multiple accounts.

That said, we know that saving is not always easy. Recent research we conducted underscores the challenges working Americans face. I'd like to share with you some of these results and the suggested steps that should be taken to improve retirement preparedness.

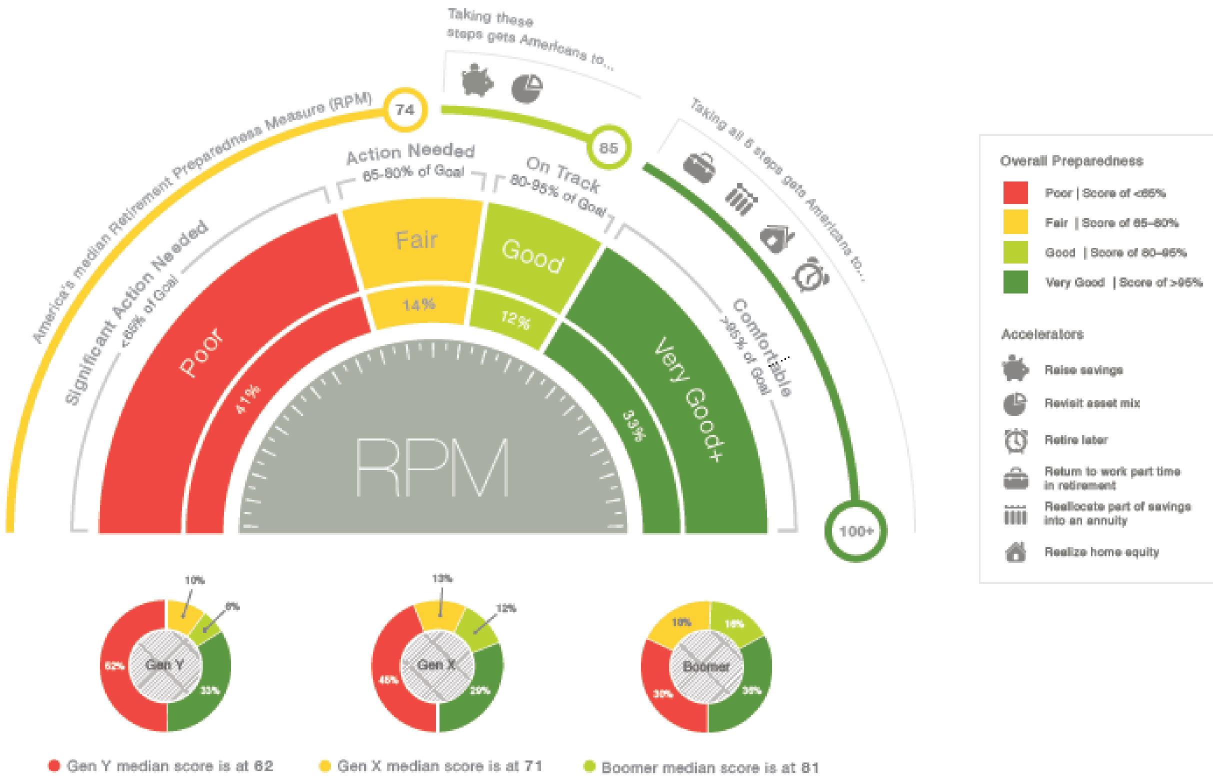
Measuring the state of retirement of working Americans

1. **Retirement Preparedness Measure: Half of Americans at risk of not covering basic living expenses**

We regularly assess how American households are preparing for retirement to secure a broad understanding of the state of retirement savings. This year, for the first time, we analyzed those survey results using various retirement spending targets to help us better understand levels of retirement preparedness. The results were illustrative but also sobering – while the combination of employer-sponsored and individual retirement accounts has produced many investors who are on track to have a healthy retirement, it also showed what we are all concerned about; that 55% of working Americans are in fair or poor condition when it comes to being able to cover all of their estimated retirement expenses.

Our analysis allowed us to look both within and across generations of working American households and categorize segments into four numeric categories based on an individual's ability to cover estimated retirement expenses, even in a down market. Let me explain the results at a high level.

- One third or 33% were in the Dark Green: these households are on track to cover at least 95 percent of estimated retirement expenses
- An additional 12 percent were Green – on track to cover 80-95. This group will cover estimated essential retirement expenses but may lack funding for discretionary expenses.
- 14% were Yellow – on track to cover only 65-80 percent of estimated retirement expenses
- And 41 percent were in the Red – on track to cover less than 65 percent of estimated essential expenses – significant adjustments to their anticipated lifestyle are likely.



2. Retirement Preparedness Measure: Younger Generations Face Major Challenges to Prepare for Retirement

When we look at the results by generation, we see some significant differences:

- Many Baby Boomers are actually doing well and the median Baby Boomer household is on track to reach 81 percent of their retirement spending goal. The challenge here is that for those Boomers lagging behind, they have little time to improve their situations. The most impactful step these Boomers can take is to continue to work and delay retirement.
- On the other hand, younger workers are not doing as well and face major challenges.
- Gen X is yellow … on track to reach 71 percent of their goal.

- Gen Y investors are falling significantly short and the median household is in the red at 62 percent.

While the young investor has the benefit of time on his/her side, and changes in behavior at this point in their working career can be very impactful, today's young investor faces a playing field where the goal posts have been moved down the field. With medical advances, we can expect this generation to live longer than their parents' generation, and young investors have expressed doubt that Social Security will provide them with the level of income in retirement that it provided to their parents.

In short, the younger generation will be forced to self-fund more of their income in retirement than their parents had to. The youngest workers in our economy should expect to work longer than age 65, will need to save more, and should start earlier despite the very real and immediate demands, including student debt, mortgages and a greater responsibility for their healthcare costs. At the same time, they should be confident that the equity markets will fuel their retirement balances and is the most likely way for their portfolios to outpace inflation.

What can we do?

Like any statistical analysis, there is a wide range of behaviors; some people are following the recommended path, making decisions to forgo short term spending in favor of saving for the long-term. But there are people at all income levels who are electing not to save.

At Fidelity, people come to us to make some of the most complex, difficult decisions of their lives. We have an obligation to do everything in our power to help them – to get more people to a place where they are more likely to achieve a comfortable retirement. And the earlier we can help them, the better.

So what can and should we do to improve on these scores? I'll highlight three.

First raise savings now: We know for individuals, especially younger investors, that the most powerful way to improve readiness is to increase savings levels – even if it is by a small amount. Our research shows that for a 25 year old earning $40,000 a year, increasing savings by 1 percent a year can mean up to $300 a month more in retirement income.

Employers and service providers like Fidelity are working toward these goals in a number of ways:

- Increasing the adoption of plan design features such as automatic increase programs – which allow workers to automatically increase savings levels annually unless they opt out.
- Changing the way employers structure how they match retirement savings can encourage even greater levels of personal saving.
- Innovating on the design of retirement plans to focus on "better outcomes" for participants. This will aim to have plans target a worker's optimal savings

outcome. In other words, plan design around the paycheck it can provide in retirement, rather than how much you can save while working.

Second, double the default deferral rate. For policymakers we feel the time is now to build on the strength of the Pension Protection Act and enhance its best features. It has been seven years since its passage and while automatic enrollment works – a default rate of 3 percent is too low. Fidelity believes in a target goal of saving 10-15 percent of your salary annually and to get to this level a minimum of a 6% safe harbor auto enrollment is needed along with annual auto increase of 1%. Policymakers can help by increasing the default deferral rate to at least 6 percent and requiring defaulting into auto-increase programs. Doing so now could mean a world of difference for the younger generations.

Our research indicates that there is little decline in participation rates when workers are defaulted into higher automatic contribution rates of 6%. Employees are looking for guidance on when to enroll in their plan, how much of their salary to contribute and they turn to their employer and plan record keeper for that very critical information.

We also know in our discussions with plan sponsors and employers that their defined contribution plans are not designed to replace all of a retiree's income in retirement. The defined contribution plan has become the primary retirement savings vehicle for many working Americans, but they need to understand that in addition to their employer sponsored retirement savings plans, workers will be required to save in an Individual Retirement Account outside of the defined contribution plan in order to confidently achieve the retirement savings they hope to have. Continuing support for these vehicles and their tax incentives is critical – especially for the millions of workers in small businesses.

Finally, more, not less education and guidance is needed for working Americans. Right now, people are overwhelmed with information and choices. As I've said, they're increasingly on their own financially. Most savers are middle- and low-income Americans. The demand for education and guidance is up dramatically for these workers since the financial crisis, and our stats show that workers who engage in a retirement planning session – either online or on the phone - increase their deferral rate by an average of 5 to 6 percentage points, and are 3.2 times less likely to cash out of their workplace savings plan when they leave their employer.

We take great pride in making retirement planning resources accessible to as many people as possible. But potential rulemaking by the Labor Department in this area could significantly curb the ability of millions of low-and middle-income workers to gain fundamental financial education and guidance they need to improve their financial security. Now more than ever, policymakers need to ensure steps are taken to bolster, not hinder the ability of working Americans to receive education and guidance about their financial future. And so, we encourage this committee to work with the Administration to ensure people can continue to have wide access to the kind of resources they need to make good responsible decisions for themselves and their families.

Closing Statement

In closing, while our research shows major challenges for many Americans, steps can be taken now which will pay significant dividends down the road.

Congressional leadership has shown that when we work together to increase savings rates in the workplace, we can help more Americans be better prepared for retirement and the challenges that lie ahead.

Fidelity is committed to partnering with you and members of your committee as you work toward solving these issues.

Thank you again for the opportunity to appear today and share our thoughts on how to help working Americans better prepare for retirement. I am pleased to take your questions.