APRIL 2016

Lifetime Income Score VI

The Road Best Traveled

A White Paper

W. Van Harlow, Ph.D., CFA

Director of Research

In a continuing cycle of economic uncertainty, change seems to be the only constant. However, we recently conducted a study that reveals another area of stability — steady support from plan sponsors and advisors.

As American workers try to navigate through their financial concerns, our findings reinforce the high premium they place on employers and advisors to help guide them toward a successful retirement outcome.

Although employees' perceptions and attitudes across many different economic categories show a notable decline, their thoughts and beliefs about their financial future — surprisingly — show an uptick.

This interesting contrast raises an all-important question: Why?

It's reasonable to conclude that the answer lies partly in the simple idea that employees continue to engage in and commit to their workplace savings plan. However, hard evidence suggests that employees are more comfortable putting their trust in the capable hands of employers and personal advisors.

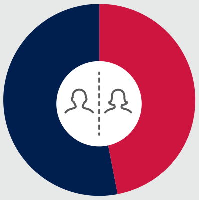
The results from our study indicate greater appreciation for modern plan design and validate the importance of professional advice to drive measurably higher confidence levels and income replacement percentages.

Working with Brightwork Partners, the Empower Institute is pleased to offer this sixth annual Lifetime Income Score℠ (LIS) report. This report includes survey results from more than 4,000 American workers aged 18 to 65. Based on individual responses, it estimates the percentage of working income — the LIS — that American households are on track to replace in retirement.

The LIS metric includes projected Social Security benefits (if available), defined benefit and defined contribution assets, personal savings, home equity and business ownership. It provides a comprehensive overview of Americans' current readiness for retirement — and suggests ways to improve it.

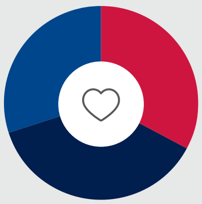
Key demographics

Gender



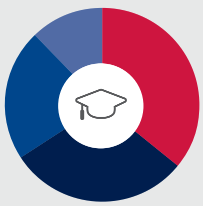
- Female = 47%
- Male = 53%

Age



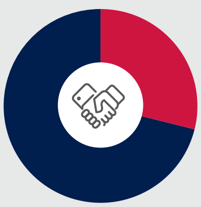
- 18-34 = 33%
- 35-49 = 37%
- 50-65 = 30%

Education



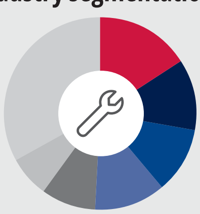
- High school or less = 36%
- Some college = 30%
- Four-year college = 22%
- Graduate school = 12%

Work with an advisor



- Yes = 29%
- No = 71%

Industry segmentation



- Professional business services = 16%
- Healthcare and social assistance = 12%
- Trade, transportation and utilities = 11%
- Educational services = 12%
- Manufacturing = 9%
- Leisure and hospitality = 7%
- Other = 33%

Median household income

$73K

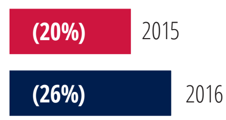
Median investable assets

$61K

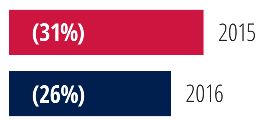
Section I: A contrast in economic and retirement confidence

Market performance and political uncertainty at any given point in time certainly influence people's views on the state of the economy. It's no surprise that responses from the LIS study — conducted throughout January and February in 2016 — follow this trend. Across several economic indicators, year-over-year confidence wanes based on employee responses.

The economy will be in a recession over the next 12 months



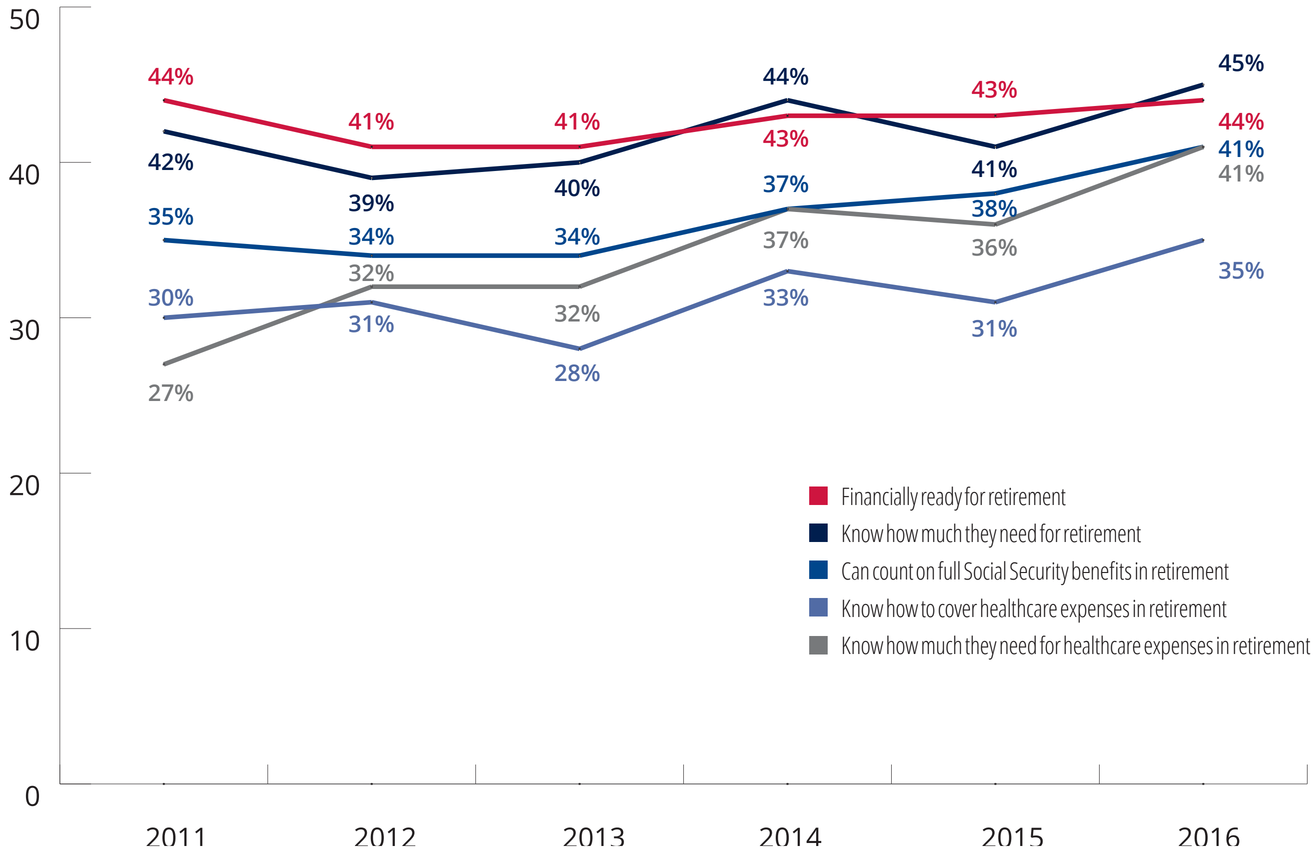
The stock market will be higher over the next 12 months



Long-term interest rates will be higher over the next 12 months

As the market goes, so goes people's attitudes toward the economy — but not their confidence in their financial future. Interestingly, this area shows a rare immunity to negativity.

In fact, the responses show employee beliefs trending in the opposite direction. The percentages of those who state that they are very confident or somewhat confident across five retirement-related areas are on par, up modestly or at historic highs compared with the previous five years.



Additionally, the study shows improvements in three important areas.

Viewing retirement as a savings objective

Saving to pay down debt

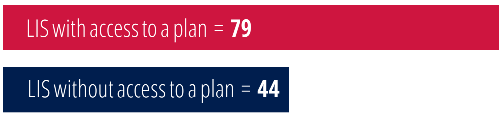
Median LIS

Even in a best-case scenario, expectations may be to see these numbers as flat. However, the fact that they are improving deserves further exploration. With an understanding as to why these numbers are bucking the trend, people can take steps to further the cause that is creating this more optimistic outlook.

Further insight into the results from the LIS study reveals that plan sponsors and advisors serve as the driving force behind these statistical anomalies.

Section II: The ripple effect

Above all else, the LIS study again confirms that having access to a workplace plan is a critical starting point. This alone lifts an LIS by 35 percentage points.



There is some encouraging news in this area: The percentage of employees who report that they are eligible to participate in a plan is up slightly from last year.

Eligible to participate in a plan

With plan access on the rise, the next step is to maximize plan effectiveness. Rome was not built in a day — and neither was the model retirement plan design. Although it has taken time, plan sponsors are starting to adopt some of the most influential and modern plan design features, creating a positive ripple effect across the workplace savings landscape.

Actively contributing 401(k) participants who were automatically enrolled

These numbers alone are powerful, but what's more impressive is the correlation between the broader adoption of auto-enrollment and the rise in LIS results.

LIS with 401(k) auto-enrollment

There is no stronger endorsement for auto-enrollment than this important fact: It works.

Meanwhile, auto-escalation continues to build momentum. Adoption of auto-escalation has long lagged behind its auto-enrollment companion, but it's quickly gaining ground as a powerful counterpart.

Actively contributing 401(k) participants who elected auto-escalation

Evidence points to auto-escalation as being one of the single biggest contributors to helping people arrive at 100% income replacement in retirement.

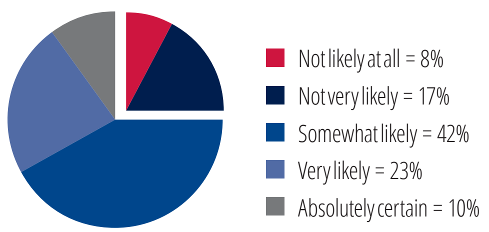
LIS with 401(k) auto-escalation

Aside from the obvious benefit of saving more, a new element to the LIS study in 2016 sheds additional light on the importance of auto-escalation. For the first time, the survey asked respondents to identify the number of times they have increased their savings percentage.

Of those who are actively contributing to a 401(k), 403(b) or 457 plan and not using auto-escalation, only 5% indicate that they have increased their contribution amount six to 10 times. There is — as expected — a direct connection between the number of increases and LIS results.

Clearly, people need a nudge in this area. Not only do they need one, but they also want one. The survey also asked actively contributing participants — whose retirement date was five years or more in the future — if they would consider participating in a program in which their employer automatically increases their contribution to the IRS maximum over a five-year period. Overall, 75% say that they would be somewhat likely, very likely or absolutely certain to sign up.

INTEREST IN AUTO-ESCALATION TO IRS MAXIMUM

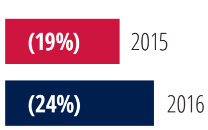


These results effectively end the debate as to whether auto-escalation borders on plan sponsors overstepping their bounds.

Section III: Planning with a professional versus doing it yourself

As a complement to the modern plan design features plan sponsors are pursuing, professional advisors are providing a steadying hand to give American workers greater confidence about their future. Employees are turning to the experts more often, as evidenced by the year-over-year increase in those who are getting professional assistance to improve their financial decisions.

Relationship with a traditional advisor



In addition, employers are increasingly using their workplace savings plan to provide access to an advisor.

Advisor connected to plan for households that have a member who is eligible to participate in a workplace plan and has an advised account

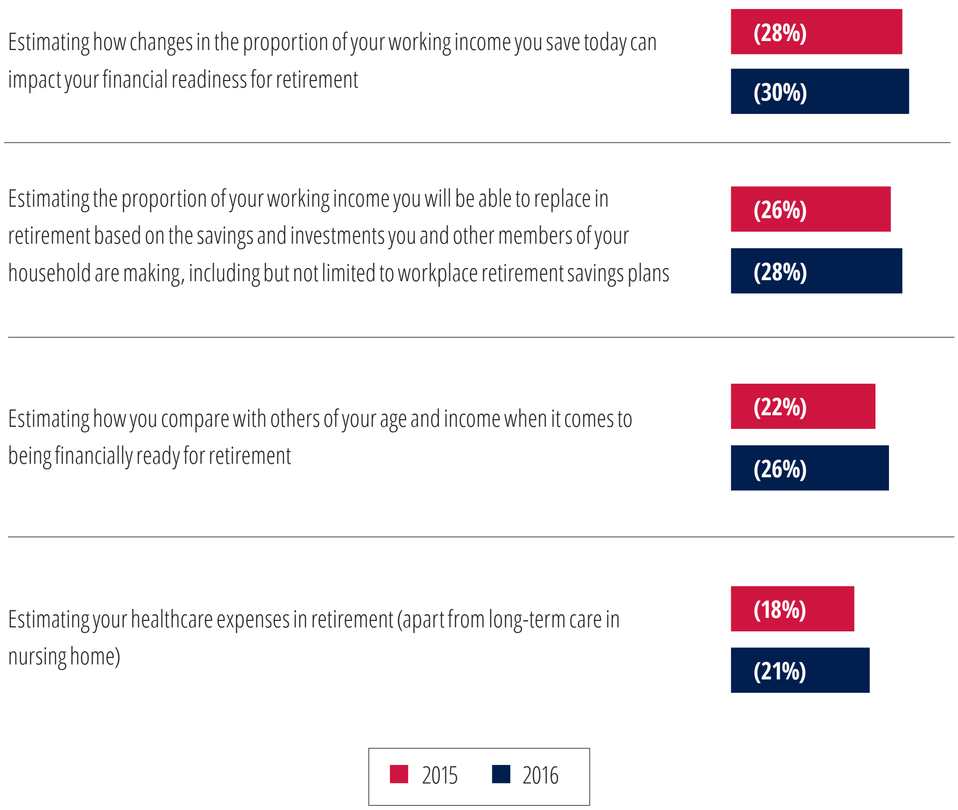
As the percentage of those who are engaging an advisor for help continues to grow, there is a strong sense of urgency for industry leaders to ensure that legislation doesn't impede this positive momentum by enacting a fiduciary definition proposal that effectively makes it more costly and complex for people to pursue the valuable services of an advisor.

In addition, LIS results rise significantly when individuals get advice.

On the sometimes bumpy road to 100% income replacement, advice can help keep people on a smooth track.

Section IV: More employees wanting a glimpse of their future

With plan sponsors and advisors serving as trusted guides, technology is then the final element to help ensure success. Online resources help people stay the course with their retirement strategy. Across virtually every category, the LIS study shows increased availability in these key types of resources compared with last year.



These types of resources act as important supplements to the steps that plan sponsors are taking to modernize their plan design and the roles that advisors are playing to drive more successful retirement outcomes.

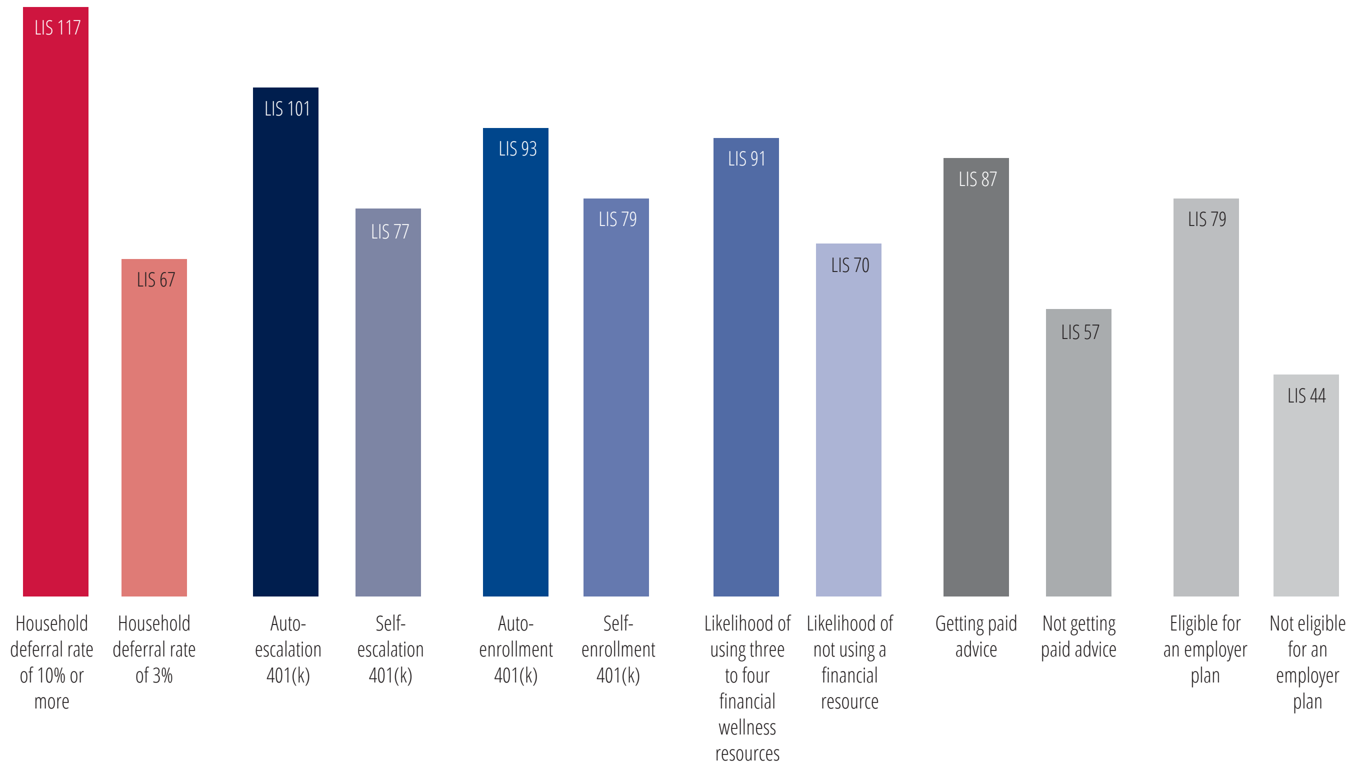
Conclusion

In an environment of constant change, a three-pronged approach can help keep the needle pointed in the right direction. We continue to witness several important trends:

- Growing adoption of innovative and modern plan designs
- Providing greater access to the valued services that advisors provide
- Increasing the availability of leading, technology-driven planning resources

The results from these positive developments speak for themselves.

Key LIS results



A transformation of the retirement system is underway — one that will allow more people to easily navigate their way toward 100% replacement of their working income for life.

The charts, graphs and screen prints in this presentation are for ILLUSTRATIVE PURPOSES ONLY.

Empower Institute is committed to advancing the understanding of key issues in portfolio management and retirement, and to providing financial planning education for financial advisors. W. Van Harlow, Ph.D., CFA, is the Institute's Director of Research.

This document contains views held by the Empower Institute. The research and opinions contained in this document are intended to be educational materials, and are not investment advice or recommendations for use by any plan advisor, plan sponsor, or plan participant. The views and strategies described may not be suitable for all investors, and readers are advised to seek tax, legal, accounting and investment advice from competent professionals. Lastly, although the information contained herein is believed to be accurate, changes in the tax, legal, regulatory or investing environment may impact the information contained in this document.

Neither Great-West Life & Annuity Insurance Company nor any of its subsidiaries have reviewed or approved these materials or are responsible for the materials or for providing updated information with respect to the materials.

Empower Institute

One Post Office Square

Boston, MA 02109

empower-institute.org