Anything But Certain

A nationwide study of attitudes and behaviors among 401(k) plan participants

J.P.Morgan

Yesterday, Today, Tomorrow

Our firm began with one of the nation's most esteemed financiers, John Pierpont Morgan, who sought to establish a framework for an investing, lending and financing enterprise that would help the rapidly escalating American economy compete globally.

That early vision succeeded.

As the country prospered, the early J.P. Morgan banking organization earned its reputation as a trusted advisor. The ability to manage assets for businesses and astute investors was a critical ingredient in the early J.P. Morgan service offering.

For more than 50 years, we have provided investment solutions to corporate and public pension plans, insurance and health care organizations, endowments, foundations and Taft-Hartley plans. Our focus is to provide superior returns to our clients.

Today's uncertain markets demand a proven and well-resourced approach. While many compelling strategies have traveled across the marketplace in the last years, few have endured.

The predictable, fundamental research process we have employed for decades, one in which investment decisions are governed by seasoned, insightful portfolio managers, continues to serve our clients.

We feel this is one of several significant advantages we offer our clients.

At J.P. Morgan Retirement Plan Services, we provide a suite of retirement services including defined contribution, defined benefit, nonqualified deferred compensation and pension payroll administration, advisory services, trustee via JPMorgan Chase Bank N.A., actuarial and investment management services via J.P. Morgan Asset Management.

Our vision is to be the best provider of retirement services and investment solutions – for every client and each individual – through delivering operational excellence and industry-leading innovation from our people who make a difference.

Executive Summary

Participants surveyed following the exceptional market volatility of the last 12 months, are losing confidence in their ability to reach their retirement goals, yet continue to embrace the idea of their 401(k), continuing to participate and change little as far as investment behavior.

ABOUT THE STUDY

J.P. Morgan conducted a research study this past spring to better understand how individuals that are contributing to 401(k) plans have reacted to recent market conditions. The study was conducted online within the United States by Harris Interactive among 1,077 respondents from April 24 to May 1, 2009.

Many of the questions designed in the study were similar in nature to a study completed in June 2007 with Harris Interactive. Some interesting findings from the 2009 study were how participants' responses varied from responses in 2007 before the market downturn.

HIGHLIGHTS FROM THE STUDY

- Participants embrace the responsibility of controlling their retirement, without confidence to succeed.
- Economic conditions have forced participants to reset their priorities with retirement being their first.
- Only 20% of participants believe they are on track to retire comfortably.
- With all of the scrutiny and urgency on disclosure and providing information, two-thirds of participants admit they don't read what they're given.
- Three out of four participants have confidence in their own decision-making which is twice the number who trust their employer and five times the number who trust the government.
- Participants did not indicate the discontinuation of the match would affect their own contributions.
- The ability to borrow against a 401(k) was once considered a feature that encouraged enrollment; however, most participants indicated that it is not important.

SUMMARY

Many participants have begun to rethink their retirement, in terms of how are they going to live through retirement, once they get to retirement. Although our study found that people have not generally changed course from their savings patterns, it is clear that planning for retirement is becoming more challenging. Participants understand that managing their 401(k) accounts is their responsibility and even trust their own decision-making more than their employers or the government. However, because they lack the time, talent or interest for investing, we've seen a transition from self-direction in managing 401(k) plans to an evolution of automatic programs.

Many participants are still unsure how much they need for retirement and are uncertain about how they will live in retirement, which makes us challenge the 70% wage replacement ratio. The right amount for retirement needs to be based on an individual level. It is important that we help participants make the right choices and when it comes to communicating the choices, they need to be meaningful to each participant. The results from this study raise many questions about what happens after an individual retires.

Contents

Retirement Readiness

PART ONE gives us an up-to-date picture of the current retirement savings landscape as seen through the eyes of those doing the saving. Are participants still on track to achieve their retirement goals, or were they blown off course? Are their ideas about retirement itself changing?

Economic Impact

PART TWO examines the impact of a poor economy on participants' financial priorities and how current conditions might play in their ability to meet retirement financial goals. Have those goals changed? Can their vision of retirement survive?

Investment Dynamics

FINALLY, PART THREE takes a closer look at how 401(k) participants chose to handle the recent decline in stock prices and where they stand with regard to long-term investing as they look ahead into a financial future that is anything but certain.

Introduction

In May 2009, J.P. Morgan commissioned Harris Interactive to ask Americans who participated in a 401(k) retirement program a series of questions concerning their attitudes and behavior toward saving for retirement. The objective was to follow-up on a similar study conducted with Harris Interactive in June 2007. At that time, the stock market was up and within a few months, on October 9, 2007, the Dow Jones Industrial Average would close at a record high of 14,164.53.

Interestingly, one of the questions we asked was this:

WHAT WOULD YOU DO IF YOU LOST 20% IN THE MARKET IN A YEAR?

In that survey, 30% of respondents said they would tighten their budgets and 42% said they would change nothing. And a slight 2% said they would stop contributing to their 401(k) plans.

On October 10, 2008 – exactly one year later to the day from its all-time high – the Dow plunged nearly 700 points at the opening bell and ended the session below 9,000 for the first time in five years. The stock market had dropped 36% in 12 months! During the winter that followed, things grew steadily worse. Finally, on March 6, 2009, the Dow closed at 6,626.94, its lowest level in 12 years.

With the market down 54% in 18 months, we wondered what respondents would say now.

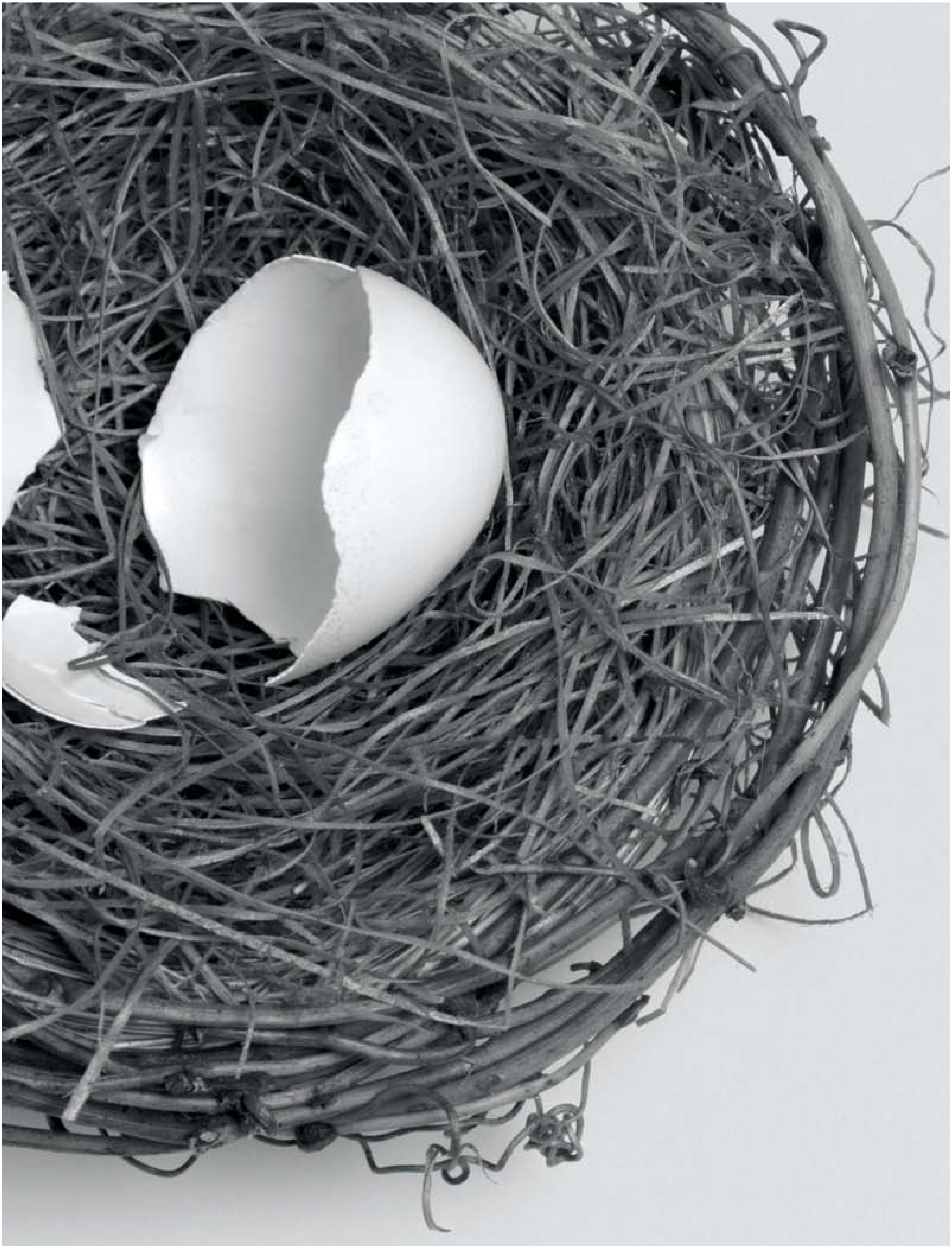
We decided to find out.

Over a seven-day period from April 24 to May 1, 2009, we had Harris Interactive survey the population with another series of questions about saving and investing for retirement, including one quite similar to the question earlier from 2007. Of course it was no longer necessary to postulate a declining market, nor did respondents have to predict what they would do. Despite the reality of a market having fallen nearly three times farther than that posed in our pervious question, only 4% said they had stopped contributing to their 401(k) plans. The increase is slight compared to the 2% in 2007 who predicted they would stop contributing. Yet it remains a very small percentage of the whole. Similarly, 20% of the 2009 respondents said they had not changed their household spending or savings habits, although 42% of them in 2007 predicted they would not change anything. Given the severity of the recession itself and the constant news coverage of the economic downturn during this period, it seemed reasonable to expect much greater differences in both cases.

So, what are participants thinking about their retirement plans now? Are they planning to change the way they save for retirement? Have they changed their *idea* of retirement?

Anything But Certain tells the story of 401(k) participants who embrace the responsibility of being in control of their own destiny, yet have lost confidence in the ability to reach their retirement goals. We have come to think of these participants as *Accidental Investors* – participants who are forced to determine what actions to take with their retirement savings in a market downturn as bad as any they have seen.

This is the story of the person who embraces the responsibility of being in control of their own destiny, yet has lost confidence in the ability to reach their retirement goals.



Retirement: The Next Generation

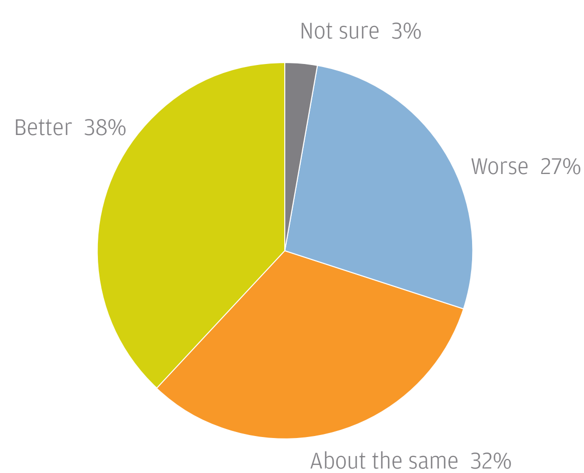
There's nothing quite like a stock market downturn to get people thinking seriously about the long term.

In financial terms, the worries of the past year have brought into focus an economy that now appears to have been built on the beach at low tide. First the real estate market and the structured finance industry washed out, then the financial sector followed. Additional contributing factors included credit tightening and high gas prices. The U.S. auto industry, heavily dependent on an expanding economy and accessible credit, could no longer hold up under the weight of its costly operations and obligations. By then, the structural damage was done. The ensuing bailouts, a new administration and unprecedented levels of government spending were unable to keep rising unemployment slumping stocks and a bottomless real estate market from dragging the rest of the economy down.

While there are signs that things may be turning around, 60% of the respondents in the 2009 survey said they don't think that will be any time soon. In fact a solid quarter of those surveyed expect the economy to get worse before it gets better.

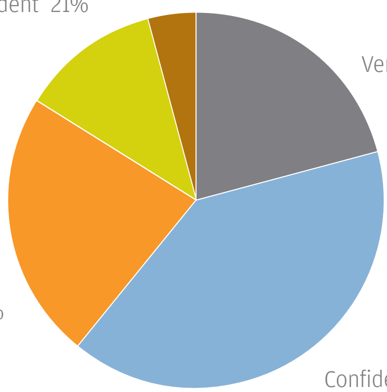
Every day the news is filled with reports of plant closings, layoffs and state governments facing budget shortfalls. And when the news is not bad, it is often unclear. Some stories are about tax hikes, others about tax cuts and stimulus checks. Infrastructure spending is bringing new jobs, but home foreclosure rates are still high. Consumers are learning to save more and, at the same time, are told they should spend more. Although the stock markets are up from their March lows, Americans continue to hear of the trillions lost in household portfolios and retirement savings.

1.1 OVER THE NEXT 12 MONTHS, DO YOU THINK THE U.S. ECONOMY WILL BE …?

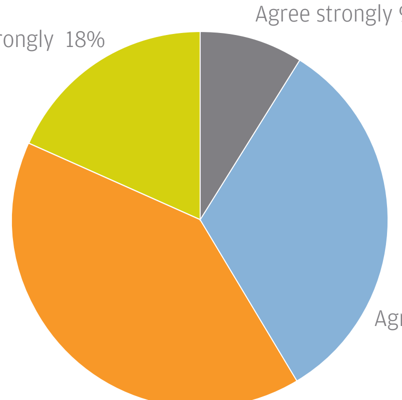


Retirement Readiness

1.2 HOW CONFIDENT ARE YOU THAT YOU WILL BE ABLE TO REACH YOUR FINANCIAL GOALS FOR RETIREMENT?



1.3 I AM CONFIDENT THAT I WILL NOT OUTLIVE MY RETIREMENT SAVINGS.



CAN I GET THERE FROM HERE?

Actively investing for retirement requires a certain amount of faith that markets will generally behave in the future much as they have in the past. Such confidence, however, is often tested in tough times. Back in 2007, when the stock markets were nearing their all-time highs, half of the individuals surveyed felt confident, with 21% very or extremely confident, about reaching the goals they had set for retirement. A year and a half later, when asked the same question, only 16% of 401(k) participants were extremely or very confident of reaching their retirement financial goals. However, one in five said they were *not at all* confident they would reach their goals.

The market downturn, particularly its negative impact on 401(k) balances, was a wake-up call. Participants are worried about how much it will take to make it *through* retirement. Almost six in 10 say they are not confident their retirement savings will be enough to last. In fact, people valued information on this topic more than information on any other topic. From the individual's perspective, there has always been uncertainty surrounding the question of how much will be enough without a bad economy making things worse.

In truth, the question of whether or not plan participants felt they could "get there from here" depends a great deal on how they feel *individually* about retirement and retirement planning, and whether any of those feelings changed substantially as a result of recent economic events.

Retirement Readiness

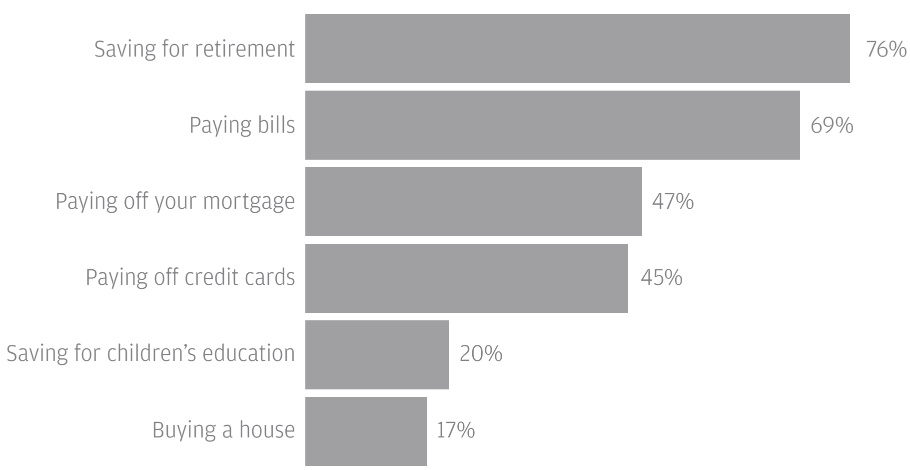
PARTICIPANTS ARE RE-SETTING THEIR FINANCIAL PRIORITIES

Fundamental financial goals have become a much higher priority since the economy grew worse. When asked in the 2009 survey to identify their top financial goals, saving for retirement came out on top with 76% of the vote followed closely by paying bills. Reducing debt is the third priority, with respondents split almost evenly between choosing to pay off the mortgage or the credit cards. Clearly, the risk to retirement balances as demonstrated by recent market events has caused many people to refocus on the long term. This conclusion is supported by a dramatic increase in the number of people who feel that paying day-to-day expenses is one of their most important goals. In 2009, 69% considered it important versus 24% in 2007.

> As participants are being forced to reset their financial priorities, three quarters of participants continue to put retirement savings first.

As individuals are telling us how important it is to be able to pay the bills, this may simply be a symptom of economic stress. Yet the ability to *continue* paying the bills may also be interpreted as a necessary accompaniment to the elevation of saving for retirement as a financial priority.

1.4 PLEASE INDICATE WHICH OF THE FOLLOWING ARE YOUR TOP 3 FINANCIAL PRIORITIES.



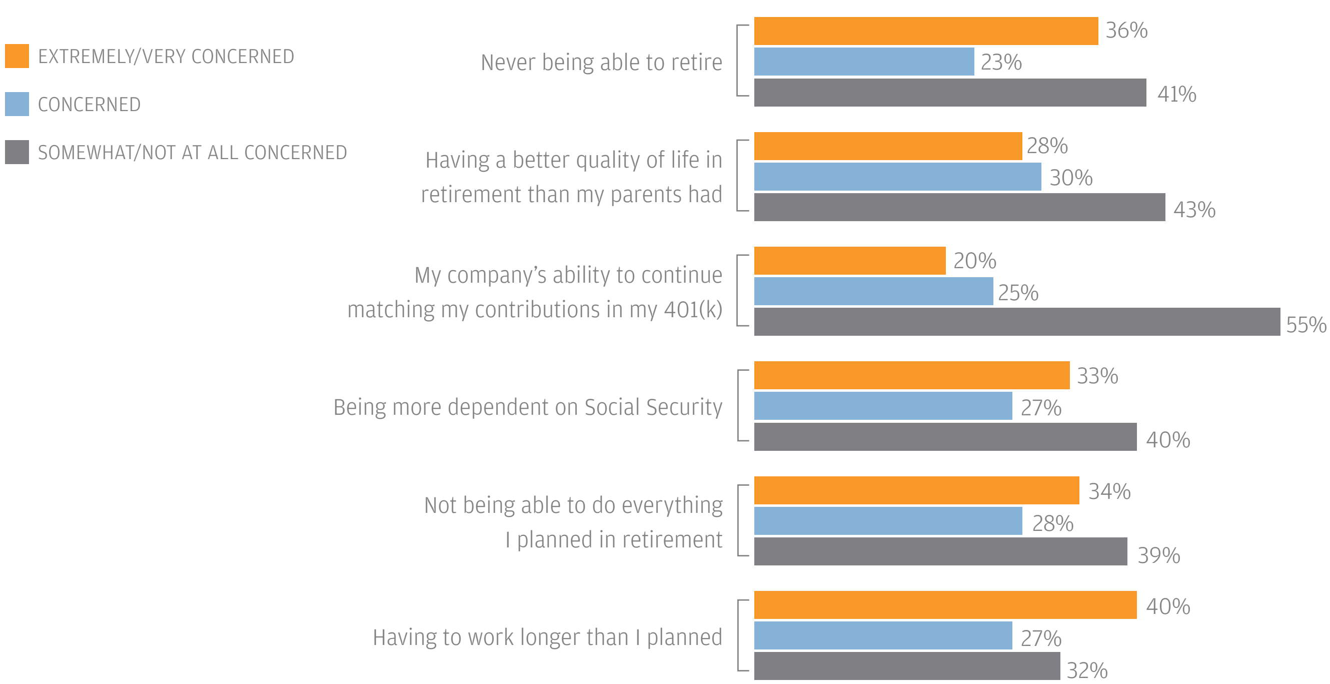
Retirement Readiness

HOW MUCH WILL I NEED?

There are definite signs that people who currently participate in 401(k) plans are dialing back their expectations when it comes to retirement itself. In fact, one way of looking at it is, the expectations of 2007 have become the concerns of 2009. In 2007, for example, half of the individuals *expected* their retirements to be better than that of their parents. In 2009, participants are *concerned* about having a better quality of life in retirement than their parents. In fact, 28% are extremely or very concerned.

These concerns are supported by the data surrounding two questions that sought to map participants' thoughts on the level of income required for a comfortable retirement and whether they were saving enough to realize that goal.

1.5 BASED ON CURRENT ECONOMIC CONDITIONS, HOW CONCERNED ARE YOU ABOUT EACH OF THE FOLLOWING?



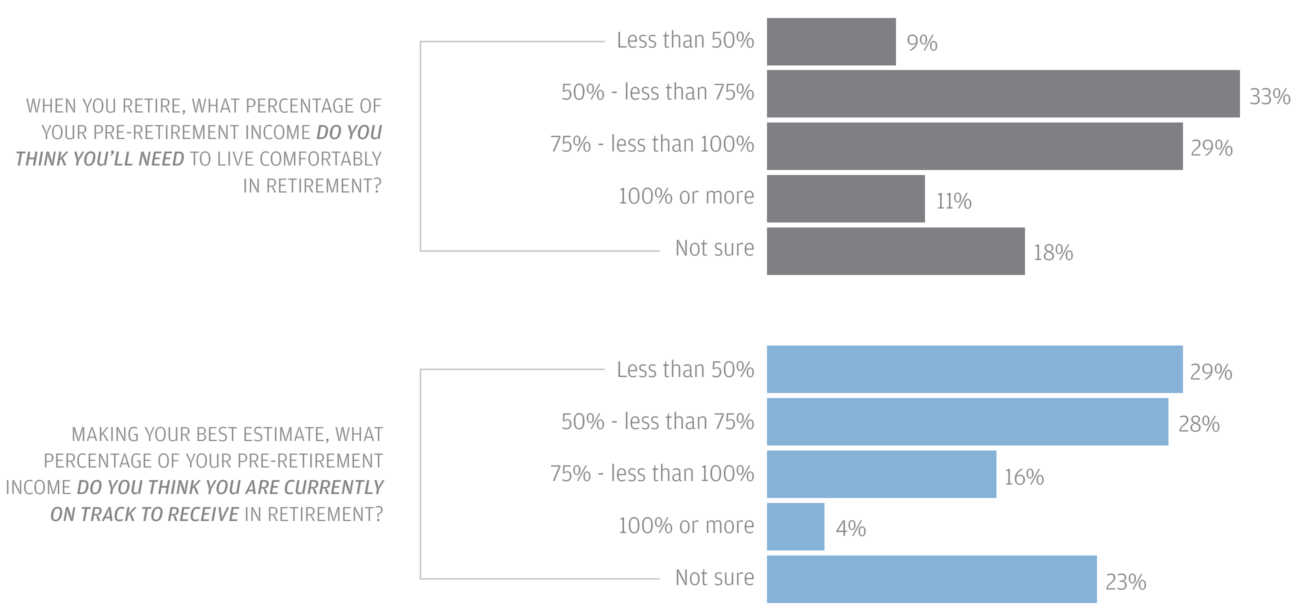
Retirement Readiness

One in three respondents felt they could live comfortably on between 50% and 75% of their pre-retirement income. A slightly smaller number thought it would take between 75% and 100% of pre-retirement income. These were easily the two largest groups, an indication that the 70% of pre-retirement income rule still prevails in the plan industry. And yet, nearly *one in five* plan participants are saying they really have no idea how much they would need.

To give the question another dimension, we asked for an estimate of how much pre-retirement income participants felt they were on track to receive at retirement. When looking at results of both questions it is clear that participants are expecting to have significantly less than they believe they need. In the figure we can see that the two largest groups have shifted, occupying the “less than 50%” and “50-75%” categories in nearly even numbers. This indicates a fairly obvious lag between income targets and savings rates. To get a feel for just how wide the gap, consider that 40% of participants feel they will need more than 75% of their pre-retirement income, yet *half that number* - 20% - believe they are on track to receive it. Only one in 10 felt comfortable retiring on less than half of what they would be making. Yet that’s where 30% expect to end up. Additionally, almost a quarter of participants don’t know how much they are on track to receive, demonstrating a significant level of uncertainty for people who are currently enrolled in their employer’s 401(k) plan.

> Only one person in five is on track to live comfortably through retirement.

1.6 WHEN YOU RETIRE, WHAT PERCENTAGE OF YOUR PRE-RETIREMENT INCOME DO YOU THINK YOU’LL NEED TO LIVE COMFORTABLY IN RETIREMENT? MAKING YOUR BEST ESTIMATE, WHAT PERCENTAGE OF YOUR PRE-RETIREMENT INCOME DO YOU THINK YOU ARE CURRENTLY ON TRACK TO RECEIVE IN RETIREMENT?



Retired but still working?

Uncertainty may be a reflection of the current economy. It may also be an expression of changing attitudes about retirement itself. According to the results of a recent survey published by Age Wave, 60% of Americans spanning four generations chose to describe retirement as an "opportunity for a new, exciting chapter in life." Seventy percent wanted to include working for pay as part of their retirement.[1]

It is beginning to appear as if the realities of retirement can't help but change, as demands are dictated by the demographics and attitudes of each approaching generation. Baby Boomers, for example, make up half of the current civilian workforce.[2] Many of them are likely to keep working past retirement age. In fact, some estimates indicate the oldest Boomers in the 90th percentile of 401(k) balances may need to postpone retirement to make up for the steep losses in equity valuations of the past 18 months.[3]

Indeed, there is anecdotal evidence that plenty of Boomers have no intention of actually retiring from "work." They are staying healthier longer. Many enjoy what they do for a living and see no reason to stop or even slow down. Others clearly see the financial need to continue working. Still others anticipate changing careers or pursuing interests or hobbies that have the potential to generate a moderate income.

1 *Retirement at the Tipping Point* AgeWave, 2009

2 According to 2006 US Census Bureau estimates, there are 78.2 million Baby Boomers, those born between 1946 and 1964. According to the US Department of Labor, Bureau of Labor Statistics July 2009 Employment Situation Summary there are an estimated 154,504,000 in the civilian workforce.

3 Employee Benefit Research Institute (EBRI) *The Impact of the Recent Financial Crisis on 401(k) Account Balances* February 2009 EBRI Issue Brief #326

Retirement Readiness

NEWER ATTITUDES ABOUT RETIREMENT

The answer to the question of how much income a person will need in retirement is becoming less straightforward.

People are living longer so they need more money. But those extra years are likely to cost them more as the nation struggles to pay the high price of healthcare for an aging population. More people anticipate working past retirement age, either because they wish to or because they believe they will have to. Sociological changes that manifest from one generation to the next, such as family composition and dynamics, geographic dispersion and attitudes about wealth and social standing, also have a significant impact on how a person goes about calculating the "cost" of retirement.

It is anticipated that those retiring over the next decade or so will dip into a cross-generational mix of traditional pensions, convertible life insurance, IRAs, salary deferment programs, social security and defined contribution plans. Retired households of two-career couples must factor each spouse's various accounts into the calculation. Be it modest or grand, the wealth of approaching generations may also likely include appreciating assets, such as second homes, rental properties and side businesses – even collectibles.

What is increasingly clear is that there is no longer a single commonly held idea of how retirement is supposed to work – if there ever was. One could say that the dominant framework consists of a plan industry encouraging all employees to save for the *same retirement*, one defined by rules of thumb such as maximizing 401(k) contributions and targeting 70% of pre-retirement income. The options of retirement plans generally available to employers and employees has increased dramatically over the decades. Why wouldn't such a landscape cause a similar variety of retirement visions to evolve? The research suggests a scenario in which all concerned would be better served if the industry can somehow address each individual's particular notions about retirement. Only recently have the data accumulation and management techniques been coupled with effective communication tools in a way that lets plan sponsors do so affordably.

And it's not just about the technical ability to personalize a message or provide "live" account updates and tracking tools. Research is demonstrating the need to meet investors on emotional terms, as well. What do they like, what motivates them and at what point do their feelings toward money and materialism turn into actions? The answers are different for each individual.

Retirement Readiness

THE ACCIDENTAL INVESTOR

Not everyone who is enrolled in a 401(k) plan is an investor by desire, temperament or aptitude. As findings here attest, certain fundamental aspects of retirement planning and 401(k) plans are well understood and appreciated by plan participants. Indeed, many would prefer to participate in a retirement program without actually having to be an investor. Call them Accidental Investors.

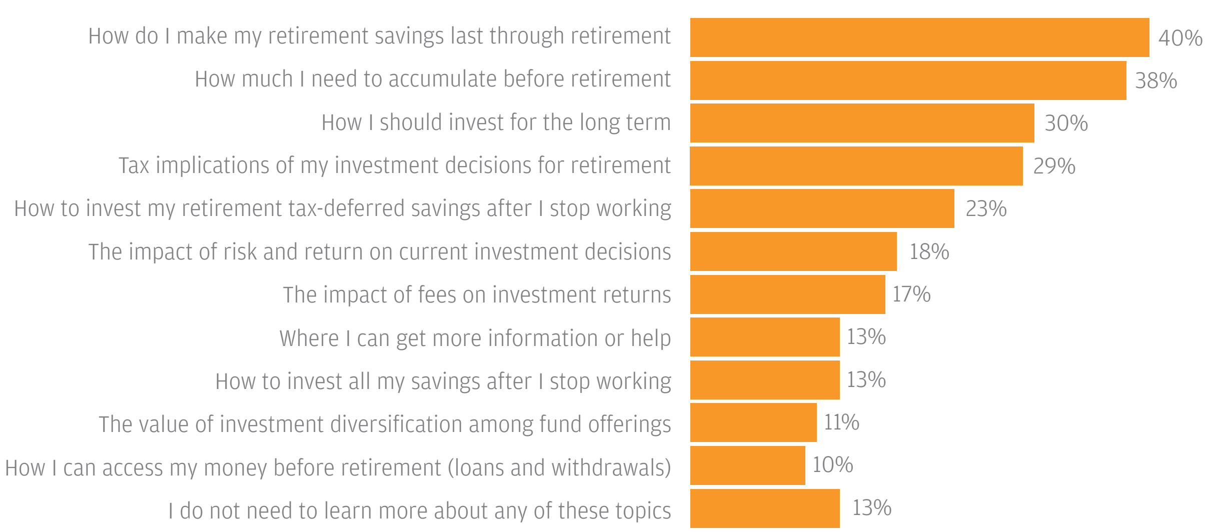
Accidental Investors seem to be considerably more interested in strategic matters than in what they perceive as the nuts and bolts of investing. As figure 1.7 shows, participants choose *How to make it last, How much I will need, How to invest for the long term and Tax implications* as their top four areas of interest for retirement. Participants may or may not already know something about fees, diversification and access to funds. But their answers show that these topics aren't as important in their decision-making.

One can see the pitfall faced unknowingly by the Accidental Investor. Topics like the impact of risk and return (18%) and the value of investment diversification (11%) are fundamental investment concepts. In fact, even the most elementary discussion of investing for the long term (30%) would require an understanding of both. Yet, for some reason, the connection does not resonate and such topics remain of little interest to participants.

> Considering the urgency with which the industry is compelled to provide exhaustive information and full disclosure, it is telling that two-thirds of plan participants admit they don't read what they receive.

Like many of us, the Accidental Investor would prefer to have it both ways: *Tell me what I want to know as long it's what I need to know*. For instance, 71% of participants agree that there should be more disclosure about the fees associated with their investments. Yet almost as many - 67% - admit they don't take the time to read the information they receive. We live in an information society and instinctively know that information has value. Whether we choose to process it or not is another matter. (Figure 1.8)

1.7 LISTED BELOW ARE TOPICS ABOUT WHICH 401(K) PARTICIPANTS LIKE YOU OFTEN HAVE QUESTIONS. PLEASE SELECT UP TO THREE TOPICS WHERE ADDITIONAL INFORMATION WOULD BE MOST VALUABLE TO YOU.



Retirement Readiness

A LITTLE HELP TO GO WITH SOME CONTROL

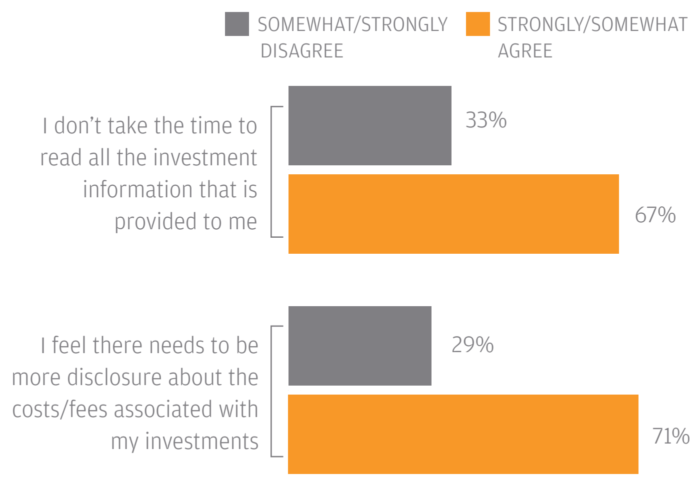
Another contradiction has more to do with the nature of defined contribution plans. Participants make it quite clear that they understand and appreciate being the manager of their own retirement account, yet they show little inclination of wanting to become involved in its growth. Most participants would rather not have to worry about “managing” their accounts. Nearly two-thirds of participants, for example, said they would welcome the help of a professional to manage the assets in their plan. Even more - nearly 80% - agreed that target date funds were a good idea. Simple is good.

Considering that the subject of investing for the long term attracted the third most interest among participants, they were split evenly in their preference for either passive or active investment management styles, with a full third having no preference. While not exactly a contradiction itself, the answers to this question suggest that participants’ nearly universal sense of personal responsibility toward retirement savings does not equate with a desire to manage, as only one in three expressed such a preference.

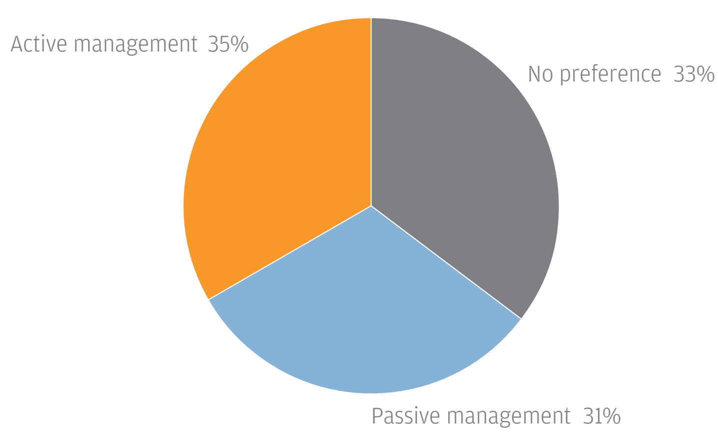
Looking closer at these and other related data, we take the larger view that most participants prefer a little help in finding out where they stand while reserving the right to make their own decisions.

Actively planning for retirement during their working years is not something people go out of their way to do. If there is a silver lining to the current economic downturn, it is that more people are now thinking about the long term, even as they find themselves revising their outlook. Plan participants have not given up and thrown the whole idea of retirement savings out the window. As we shall see, they are holding fast to the fundamentals.

1.8 HOW MUCH DO YOU AGREE OR DISAGREE WITH EACH OF THE FOLLOWING STATEMENTS?



1.9 IN GENERAL WHICH OF THE FOLLOWING MANAGEMENT STYLES DO YOU PREFER WHEN INVESTING?



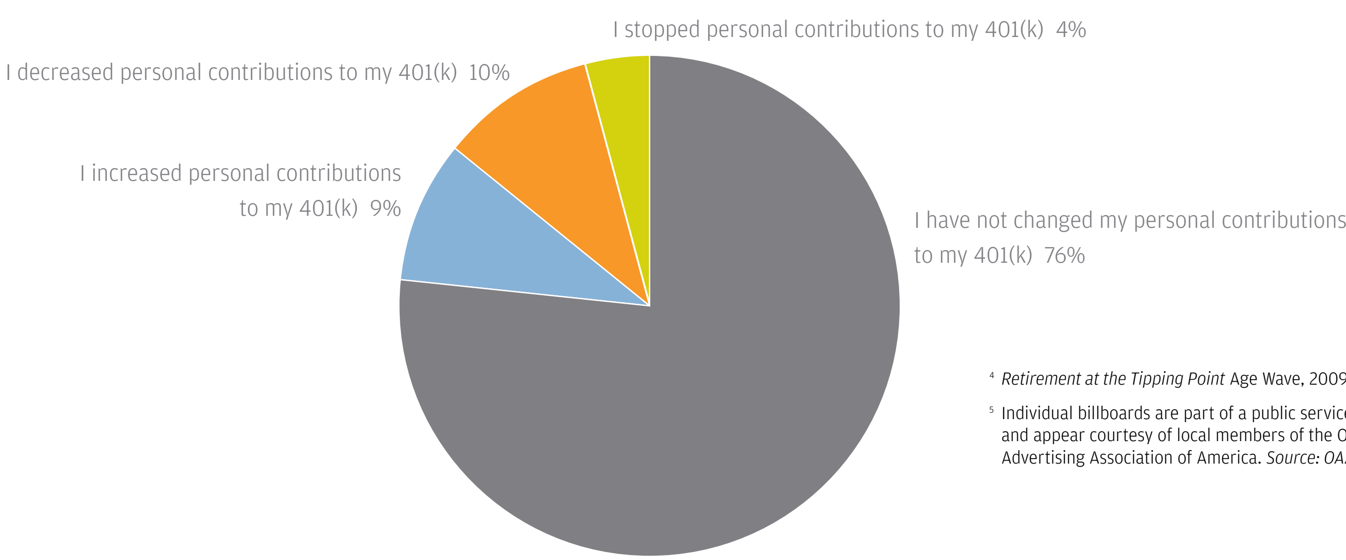
The Center Holds

Tough economic times have frayed nerves and forced changes, but participants are still betting on the future.

Whether you find them in the media or in your own neighborhood, the real stories of this economy are about average people battling their way through tough times. Most of them have to deal with finding or losing jobs, making ends meet, paying bills, cutting back, wondering how to pay for college, or care for elderly parents or rethinking their priorities. Some stories point out the positives - increased savings rates, the value of living within one's means, families focusing on the fundamentals in life. Still, these stories overlay a nearly constant worry about the effect of current economic conditions on individual financial situations — what will happen tomorrow or next week or next month? Some people express deep-seated fears of not being able to provide for themselves or their families.[4] Many more have experienced the disappointment of putting off plans and passing-up opportunities.

And yet on the subject of the long term, people remain steadfast. A billboard along a rural highway in southwestern Ohio, a state struggling with high unemployment, reads: "Interesting fact about recessions ... they end."[5] Our research shows that surprisingly few people have changed their approach to saving for retirement. And even if some have had to reduce their level of 401(k) contributions, over *95% of 401(k) participants continue to contribute to their retirement plans*. The long term is still the long term. While those nearer to retirement may face different financial issues than younger workers, no one is throwing in the towel.

2.1 WHICH OF THE FOLLOWING BEST DESCRIBES THE MOST RECENT CHANGE YOU HAVE PERSONALLY MADE TO YOUR 401(K) DURING THE PAST 12 MONTHS IN THE ECONOMIC ENVIRONMENT?



[4] *Retirement at the Tipping Point* Age Wave, 2009

[5] Individual billboards are part of a public service campaign and appear courtesy of local members of the Outdoor Advertising Association of America. *Source: OAAA*

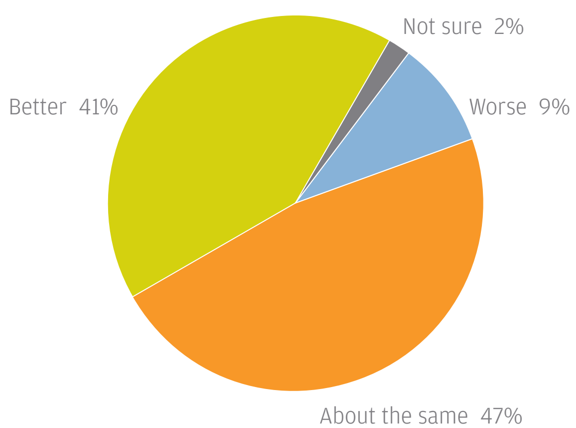
Economic Impact

GUARDED OPTIMISM

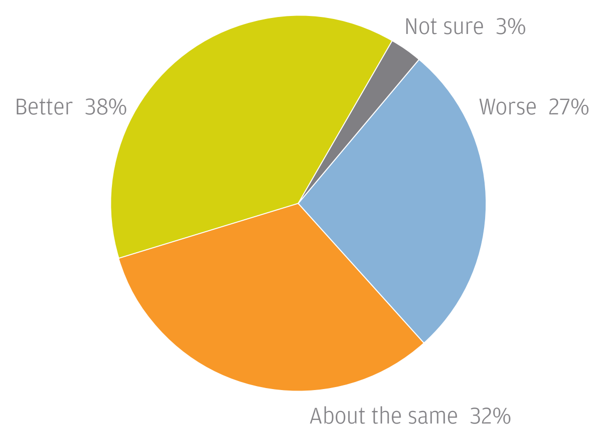
One thing that makes this particular economic downturn unique is that, perhaps for the first time, the average investor is able to see just how dependent each component of our economy is on every other component. Moreover, the severity and breadth of this recession has left everyone in the same boat, relatively speaking, and so it was not surprising to find that nearly half of the plan participants we surveyed said they had fared about as well as most people over the past 12 months. Of note, fewer than 10% of participants felt they had done worse than most Americans, leaving four out of 10 feeling they had managed better.

Perhaps the practice of saving creates optimism. The First Command Financial Behaviors Index found that those who regularly put money into savings are less likely to be stressed out about the current economy than those who do not.[6] Apparently, the same holds true for retirement saving. The number of those who felt they had managed better than most people was 25% higher for 401(k) participants compared to those who were not contributing to a 401(k) plan.[7] Likewise, the number that felt they had done worse than most nearly doubles to 17% among non-participants. Looking ahead to the next 12 months, figure 2.3 shows that, as a group, 401(k) participants are more likely to believe the economy will get better (38% better vs. 27% worse), while those not contributing are more likely to believe it will get worse.

2.2 COMPARED TO MOST AMERICANS, HOW HAVE YOU MANAGED DURING THE PAST 12 MONTHS OF ECONOMIC ENVIRONMENT?



2.3 OVER THE NEXT 12 MONTHS, DO YOU THINK THE U.S. ECONOMY WILL BE …?



[6] First Command Financial Behaviors Index, April 7, 2009

[7] Nonqualified respondents, under the age of 65, working for a for-profit company and not contributing to a defined contribution plan

Economic Impact

BACK TO BASICS

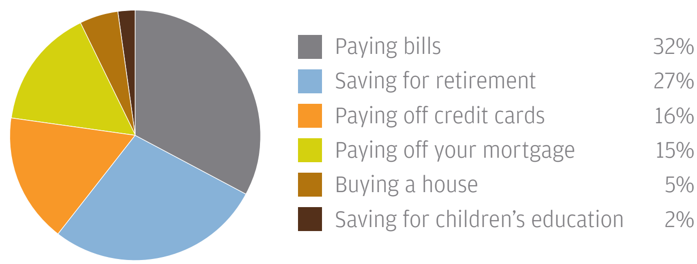
We began this section by pointing out that, despite the volatile economy, plan participants still found a way to maintain their 401(k) contributions. It's true that saving for retirement came out on top when three choices were available. But when asked to name a single financial priority, paying the bills was number one at 32%. That's almost a third more than worried as much about having enough to pay the bills in 2007. The present economic conditions are forcing people to focus on doing what's necessary "just to get by." Eight out of 10 participants said they had made some changes in their monthly spending during the past 12 months. Figure 2.5 shows that participants mostly cut back on the luxury of eating out frequently and used coupons or shopped for sale items. It also shows that they held off on major purchases such as cars and appliances, items that are usually acquired "as needed" and are typically bought on credit. Recent Federal Reserve statistics back this up. Consumer credit declined an annual rate of 5 1/4% in the second quarter 2009.[8] As typical of a recessionary environment, personal savings rates are also up. Personal savings as a percentage of disposable personal income was 4.6% in June 2009. This is nearly two and a half times the savings rate for the same period in 2007.[9] It may be too soon to tell, but evidence is mounting that Americans appear to be rediscovering the value of living within their means.

[8] Federal Reserve Statistical Release, Consumer Credit, May 2009

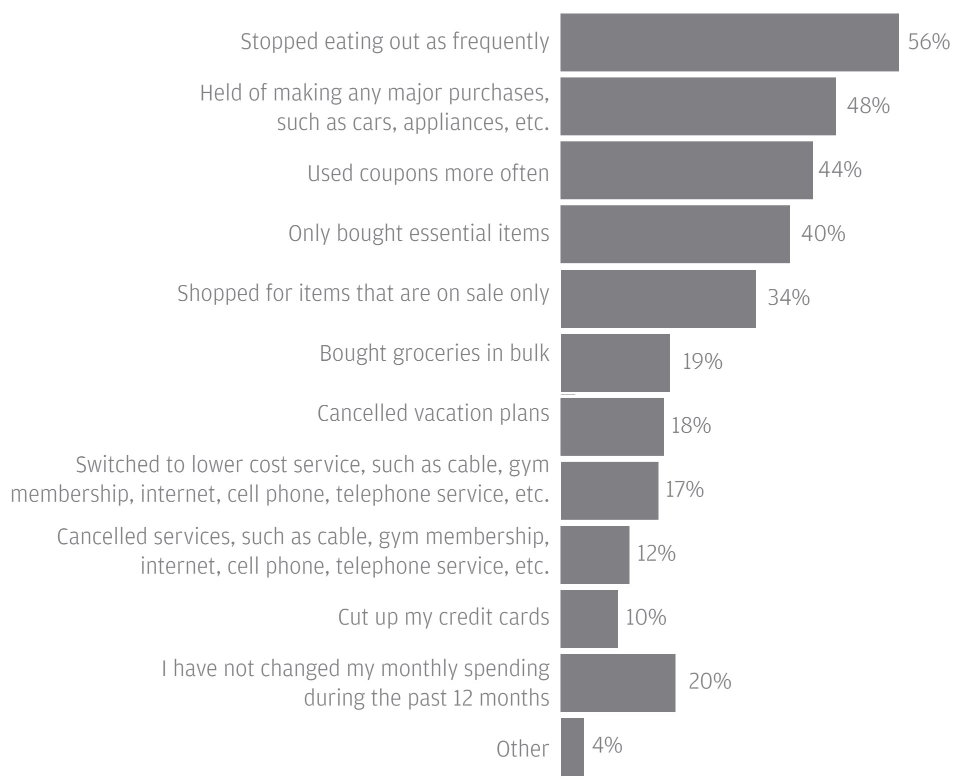
[9] Bureau of Economic Analysis: Personal Income and Outlays, August 4, 2009

Americans appear to be rediscovering the value of living within their means.

2.4 PLEASE INDICATE WHICH OF THE FOLLOWING IS YOUR TOP FINANCIAL PRIORITY



2.5 IN WHAT WAYS, IF ANY, HAVE YOU CHANGED YOUR MONTHLY SPENDING DURING THE PAST 12 MONTHS? PLEASE SELECT ALL THAT APPLY.



TOUGH TIMES BREED SELF-RELIANCE

If economic conditions are bringing people back to reality, then they are also returning with a renewed sense of personal responsibility. This was made abundantly clear when we asked 401(k) participants who they thought was most responsible for making sure they saved enough for retirement. Nearly half said they were solely responsible for saving enough for retirement. Another 40% said they were very responsible.

Surprisingly, just about everyone considered themselves at least responsible. Figure 2.6 shows how dramatically different participants feel about any responsibility their employer or the government might share in the matter. And while only 38% are extremely or very confident of being able to manage it on their own, three out of four are at least confident in their own decision-making. This is twice the number of those who trust their employer and more than five times the number that trust the government.

Three out of four participants have confidence in their own decision-making – twice the number who trust their employer and more than five times the number who trust the government.

2.6 FOR EACH OF THE FOLLOWING, PLEASE INDICATE HOW MUCH YOU THINK EACH PARTY IS RESPONSIBLE FOR ***ENSURING THAT YOU HAVE SAVED ENOUGH FOR RETIREMENT***.

	Solely responsible	Very responsible	Responsible	Somewhat responsible	Not responsible
Myself	46%	40%	12%	1%	<1%
My employer	<1%	9%	24%	31%	36%
A combination of myself and my employer	3%	24%	31%	20%	21%
The government	1%	9%	20%	28%	42%

2.7 FOR EACH OF THE FOLLOWING, PLEASE INDICATE HOW CONFIDENT YOU ARE ABOUT EACH PARTY IN ***MANAGING THE FUTURE OF YOUR RETIREMENT***.

	Extremely confident	Very confident	Confident	Somewhat confident	Not at all confident
Myself	14%	24%	39%	19%	3%
My employer	1%	5%	30%	39%	25%
A combination of myself and my employer	2%	11%	40%	32%	15%
The government	<1%	3%	10%	24%	62%

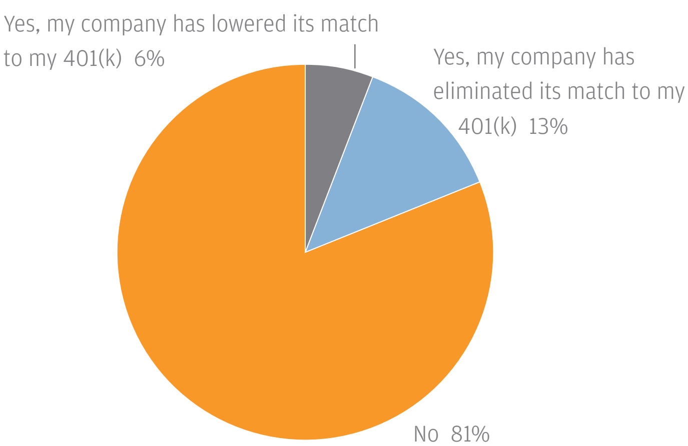
Economic Impact

WHAT HAPPENS WHEN EMPLOYERS STOP MATCHING?

While participants are trying to save more and spend less, employers are being forced to make tough decisions on the benefits they are able to continue providing to their employees. For example, there are widespread reports of the increasing gap between the cost of employee healthcare coverage and earnings. This “affordability gap” has to be bridged either by increasing the amount paid by workers or by reducing coverage and benefits. Older, established industries – most notably the auto industry – that pay retiree benefits, face a funding crisis as retirees outnumber active workers and as lower values left many defined benefit plans under-funded at the end of 2008.

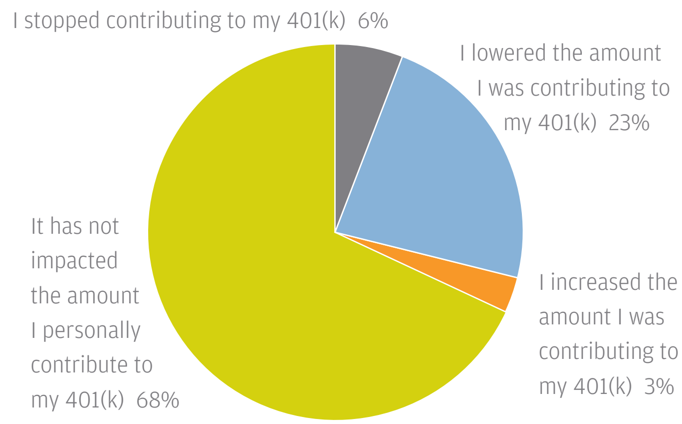
With the economic conditions compromising earnings, companies have had to cut back on and in some cases eliminate the employer matching contribution. How did participants respond to this potential benefit reduction? For starters, it was a hypothetical issue for eight out of 10 participants. When asked what they would do if their company lowered or eliminated its match, nearly three-fourths said the change would have no impact on their own contributions. Of the 19% whose companies lowered or eliminated their matching contributions, 68% of participants made no change in their contribution level. Three percent actually increased their own contribution and only 6% stopped contributing.

2.8 DURING THE PAST 12 MONTHS, HAS YOUR COMPANY LOWERED OR ELIMINATED ITS MATCH TO YOUR 401(K) PLAN?

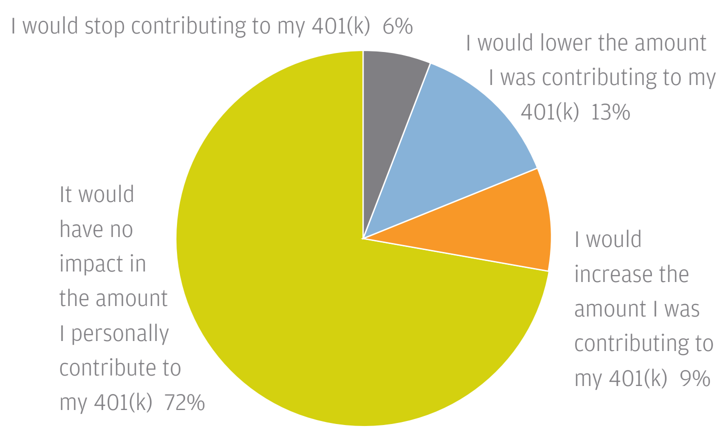


When asked, the majority of participants did not indicate that the discontinuation of an employer match would affect their own contributions.

2.9 FOR THOSE WHOSE COMPANIES MADE CHANGES TO THE MATCH WE ASKED, HOW HAS YOUR COMPANY’S REDUCTION OR ELIMINATION OF YOUR 401(K) MATCH IMPACTED THE AMOUNT YOU PERSONALLY CONTRIBUTE TO YOUR 401(K)?



2.10 FOR THOSE WHOSE COMPANIES DIDN’T CHANGE THE MATCH WE ASKED, WHAT WOULD YOU DO IF YOUR COMPANY LOWERED OR ELIMINATED ITS MATCH TO YOUR 401(K) PLAN?



Economic Impact

IMPACT ON BALANCES HARSHEST FOR THOSE NEARING RETIREMENT

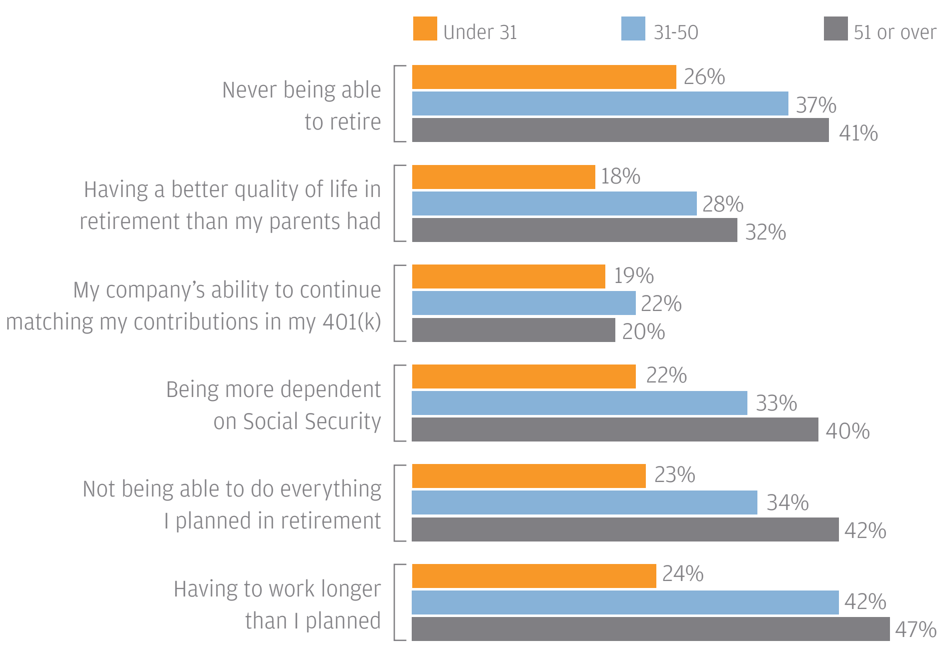
Planning for retirement is time sensitive. We speak constantly of retirement savings in the long term … something that takes place over decades and is successful in part by ignoring short term ups and downs in the market. While this is true, it is only useful to those who have most of that time ahead of them. And that makes the past 18 months especially unsettling for individuals approaching retirement age. Not only were their 401(k) balances most affected by the drop in stock prices, but this group also has the least amount of time to make up losses. Even workers 10 or 15 years away from retirement have cause for concern should the markets rebound slowly.

HOW DO THEY FEEL ABOUT RETIREMENT NOW?

To judge the degree of people's feelings toward retirement based on the current economy, we asked participants to rate their level of concern about the following list:

- Never being able to retire
- Having a better quality of life in retirement than my parents had
- My company's ability to continue matching my contributions in my 401(k)
- Being more dependent on Social Security
- Not being able to do everything I planned in retirement
- Having to work longer than I planned

2.11 BASED ON CURRENT ECONOMIC CONDITIONS, HOW CONCERNED ARE YOU ABOUT EACH OF THE FOLLOWING? (% EXTREMELY/VERY CONCERNED)



UNEVEN IMPACT

In many ways, the impact of stock market conditions on retirement plan balances is a murky picture because the effects are felt unevenly. Younger or newly-vested workers have most of their investment returns ahead of them. Those who have been working or contributing to their plans for two or more decades and whose balances are composed mostly of investment returns would naturally be hit hardest.

The crash hardly affected the retirement prospects of the young: the bulk of the retirement income they will draw from 401(k)s and IRAs will come from future contributions and future returns. Those at the cusp of retirement, by contrast, are heavily exposed: retirement savings are then at their peak and there is little time to adjust work, saving, and retirement plans in response to the market crash.[10]

The Center for Retirement Research at Boston College, June 2009

Not surprisingly, how the recent financial market losses affect individual 401(k) account balances is strongly affected by the size of a participant's account balance. Those with low account balances relative to contributions experienced minimal investment losses that were typically more than made up by contributions: Those with less than $10,000 in account balances had an average growth of 40 percent during 2008, since contributions had a bigger impact than investment losses. However, those with more than $200,000 in account balances had an average loss of more than 25 percent..[11]

Employee Benefits Research Institute, February 2009

[10] *Risk Pooling and the Market Crash: Lessons From Canada's Pension Plan* by Ashby H.B. Monk and Steven A. Sass, Center for Retirement Research, June 2009 IB#9-12

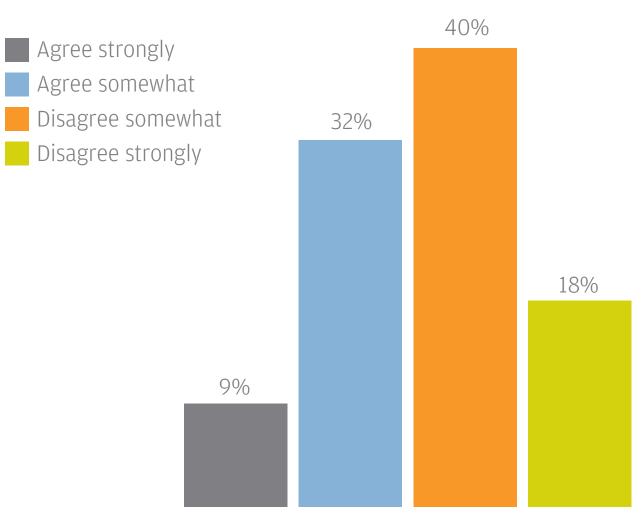
[11] EBRI Issue Brief #326, February 2009

Economic Impact

Looking at figure 2.11, the data shows a direct relationship between age and degree of concern. Data from the Employee Benefits Research Institute (EBRI) show a similar correlation with regard to account balances. Not only are workers 45 and older likely to have more in their accounts than younger workers, they also have longer tenure and thus were most affected by the downturn in 2008.[12]

It would appear that many of those nearer to retirement age harbor widespread concerns about the current state of their retirement savings. It's no surprise that two-thirds of participants are worried about having to work longer than they planned. Another choice would be to dial back their retirement plans somewhat. Sixty-two percent are now concerned they won't have the money to do all the things they were saving toward. Almost the same number indicated their belief that this economy will prevent them from ever being able to retire. Another measure of concern is the number of people who are afraid they will end up needing Social Security. In 2007, nearly half (48%) of those surveyed anticipated Social Security income to fund a relatively small portion of the retirement pie. Less than two years later, *six out of 10 people* are concerned about having to depend on Social Security. (Figure 1.5)

2.12 I AM CONFIDENT THAT I WILL NOT OUTLIVE MY RETIREMENT SAVINGS



[12] EBRI Issue Brief #326, February 2009.

By and large, Americans believe strongly in being responsible for making sure they have enough saved up for retirement. Survey responses confirm that 401(k) participants are committed to using plans to fund their retirement. In fact, more than half expect to outlive the effort. If nothing else, the current economic downturn has served to frame the issue for most participants in a way that is impossible to ignore: How can they increase their rate of retirement savings? How can they better protect what they have and continue to earn? Most of all, how can they gain a better understanding of where they are and where they need to be in terms of their own idea of retirement? These are the platforms for action that will form the dialogue for plan sponsors, participants and providers going forward.

Indecision, Inaction, Inertia

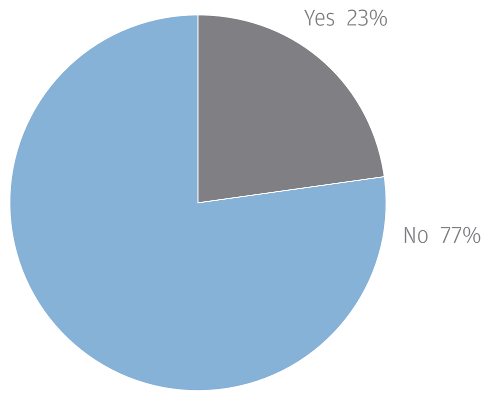
401(k) plans are here to stay, but market losses reveal the gap between simply participating and successful retirement planning.

As stocks began their final descent in early January 2009, having already shed more than 30% of their value over the past 14 months, seasoned investors may have been asking themselves if there was a bottom.

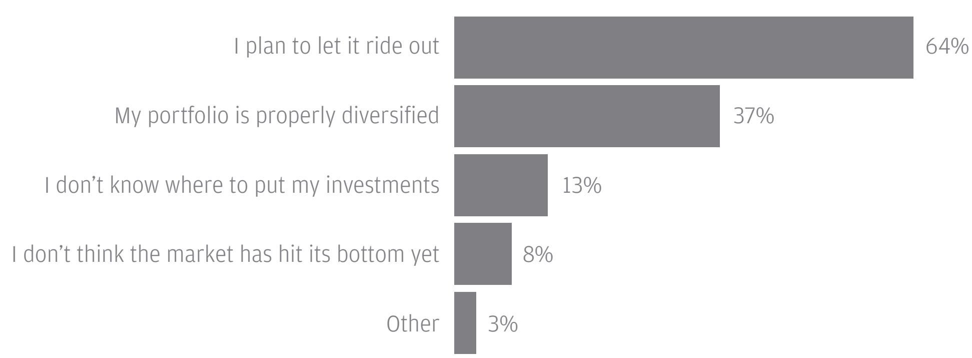
What about the average person with the bulk of their retirement savings invested in the stock market?

It was an interesting question – this generation of workers had never seen anything quite like this. So we asked plan participants about it at the end of April 2009. More than three-fourths of respondents said they had made no changes to their 401(k) investment during the previous 12 months. Did they really do nothing but watch as the value of their portfolio fell? For most that was the case. When we asked them why, 64% said they were going to take their lumps and ride it out and 37% said their portfolios were properly diversified. Only 13% admitted they did nothing because they didn't know what to do.

3.1 EXCLUDING PERSONAL CONTRIBUTION CHANGES TO YOUR 401(K), HAVE YOU MADE ANY CHANGES TO THE INVESTMENTS IN YOUR 401(K) DURING THE PAST 12 MONTHS IN THE ECONOMIC ENVIRONMENT?



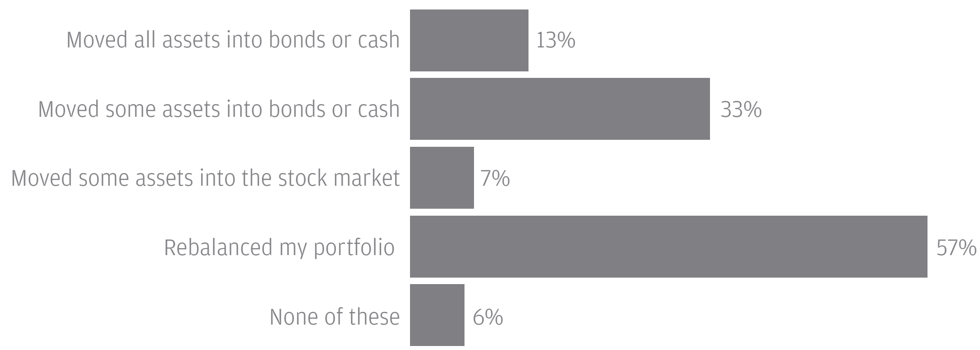
3.2 WHICH OF THE FOLLOWING DESCRIBES WHY YOU HAVE NOT MADE CHANGES TO THE INVESTMENTS IN YOUR 401(K)?



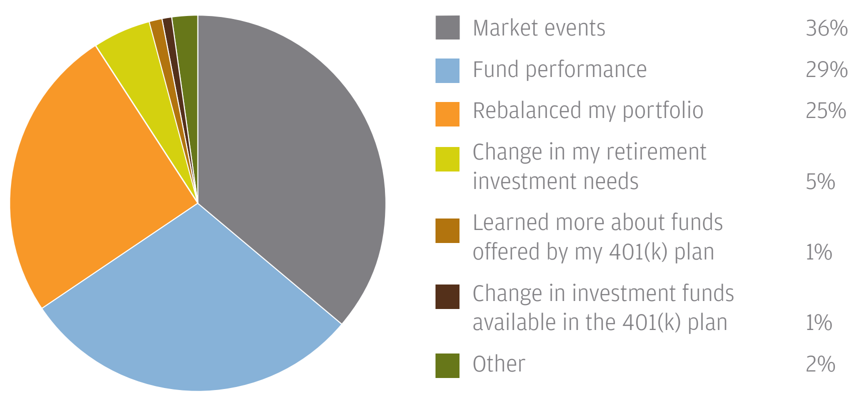
Investment Dynamics

We then asked the 23% who *had* made changes to their investment mix to tell us what they did. One-third said they moved at least some assets to bonds or cash and 13% moved *all* of it to bonds or cash. Only 7% bought more stocks. Regarding these changes, over half of this group said they were re-balancing their portfolio. When asked what prompted them to make the change, *market events* and *fund performance* accounted for two-thirds of the responses. This time only 25% were rebalancing. It's possible that the "rebalancing" from the first question was really a flight from equities into cash or bonds. And since the same survey revealed that 42% of participants didn't know how to diversify their portfolio, it's also likely that some of those claiming to be "properly diversified" did nothing because they simply didn't know what to do.

3.3 IN WHICH OF THE FOLLOWING WAYS HAVE YOU MADE CHANGES TO THE INVESTMENTS IN YOUR 401(K)? PLEASE SELECT ALL THAT APPLY.



3.4 WHAT IS THE MAIN REASON YOU MADE CHANGES TO THE INVESTMENTS IN YOUR 401(K)?

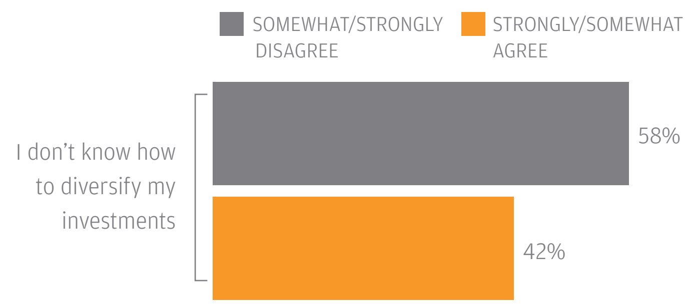


Investment Dynamics

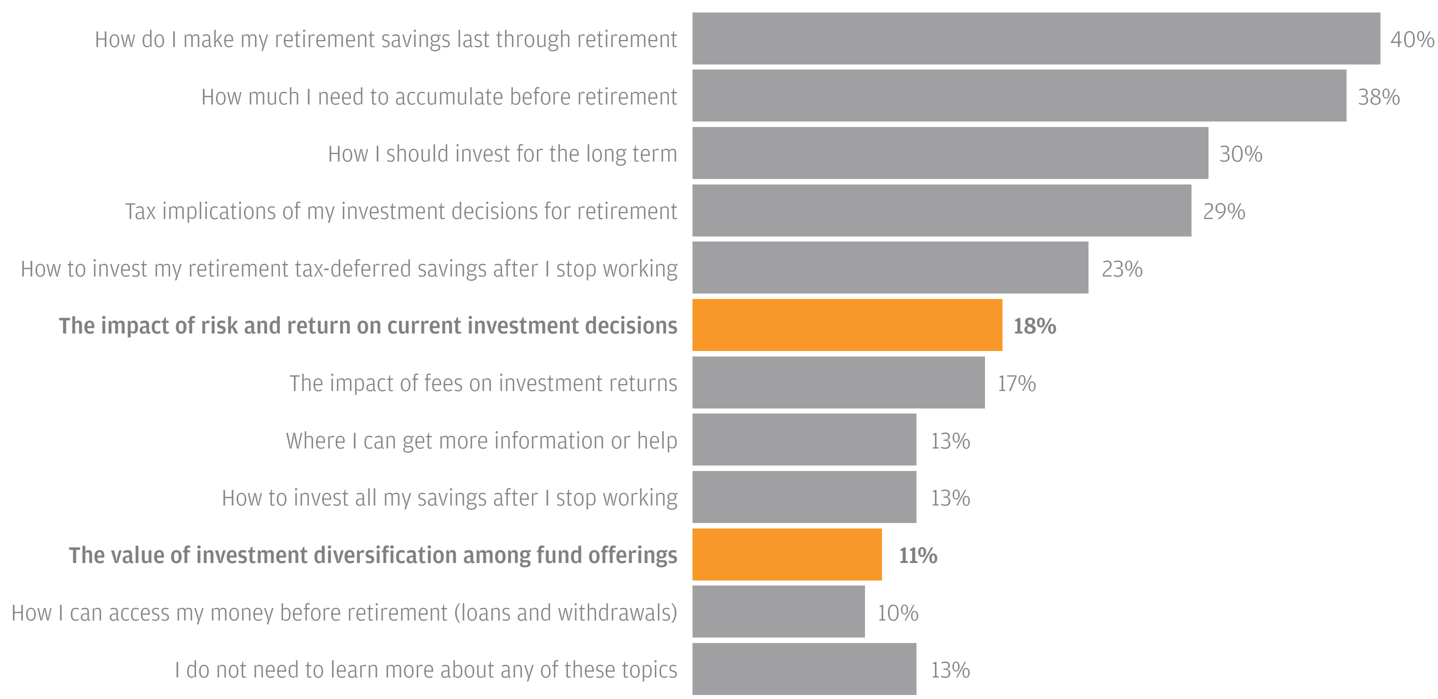
This would be consistent with observations from the 2007 survey in which only one-quarter reported making investment changes more than once a year, which is on par with the 2009 findings that 23% have not made changes to their 401(k) during the past 12 months. Apparently people are doing – or *not* doing – the same things, whether the market is gaining or losing half its value. This could be a common trait of the Accidental Investor. Once committed, most 401(k) participants tend to stick with an investment decision unless they are motivated enough to depart from established routine and certain enough that change is the right move.

Even *after* stocks had finished their 18 month fall, participants remained uninformed on the subject of asset allocation. As late as April 2009, only 18% thought it worthwhile to learn more about the impact of risk and return on current investment decisions. And only 11% were interested in receiving information on the value of diversifying their investments among fund offerings.

3.5 HOW MUCH DO YOU AGREE OR DISAGREE WITH EACH OF THE FOLLOWING STATEMENTS?



3.6 LISTED BELOW ARE TOPICS ABOUT WHICH 401(K) PARTICIPANTS LIKE YOU OFTEN HAVE QUESTIONS. PLEASE SELECT UP TO THREE TOPICS WHERE ADDITIONAL INFORMATION WOULD BE MOST VALUABLE TO YOU.



Over-exposed to equities

The aggregate loss in value of 401(k) accounts nationwide made it clear that too many retirement accounts were over-exposed to equities. Stock markets had climbed steadily for nearly five years, and along with them, the value of the equities portion of the typical 401(k) portfolio. Individuals had either grown accustomed to the market growth or did not understand that without active reallocation, the risk to their portfolio grows proportionately. Using the rule-of-thumb that estimates equity allocation percentage at 110 minus the age of the investor, the table shows how over-exposed retirement accounts were to equities in 2007.

3.7 AVERAGE ASSET ALLOCATION OF 401(K) ACCOUNTS, BY PARTICIPANT AGE

Percentage of account balances, 2007										
Age Group	Equity Funds	Lifecycle Funds[a]	Non-Lifecycle Balanced Funds	Bond Funds	Money Funds	GICs[b]/Stable Value Funds	Company Stock	Other	Unknown	Total[c]
20s	48.1%	13.8%	9.2%	6.6%	3.7%	5.9%	8.4%	1.3%	2.7%	100%
30s	56.8%	9.3%	7.4%	6.9%	3.0%	4.9%	8.9%	1.7%	1.0%	100%
40s	54.0%	7.4%	7.6%	7.1%	3.3%	6.8%	10.7%	2.0%	0.8%	100%
50s	45.9%	7.1%	8.4%	8.6%	4.3%	11.3%	11.5%	2.2%	0.6%	100%
60s	38.5%	6.5%	8.3%	10.4%	5.9%	17.8%	9.7%	2.1%	0.5%	100%
All	48.2%	7.4%	8.0%	8.3%	4.2%	10.6%	10.6%	2.1%	0.7%	100%

Source: Tabulations from EBRI/ICI Participant-Directed Retirement Plan Data Collection Project. (Figure 18)

[a] A lifecycle fund typicall rebalances to an increasingly conservative portfolio as the target date of the fund, which is usually in the fund's name, approaches.
[b] GICs are guaranteed investment contracts.
[c] Row percentages may not add up to 100 percent because of rounding. Percentages are dollar-weighted averages.

Source: EBRI Issues Brief No. 324, December 2008

Investment Dynamics

PEOPLE LIKE THE 401(K) IDEA

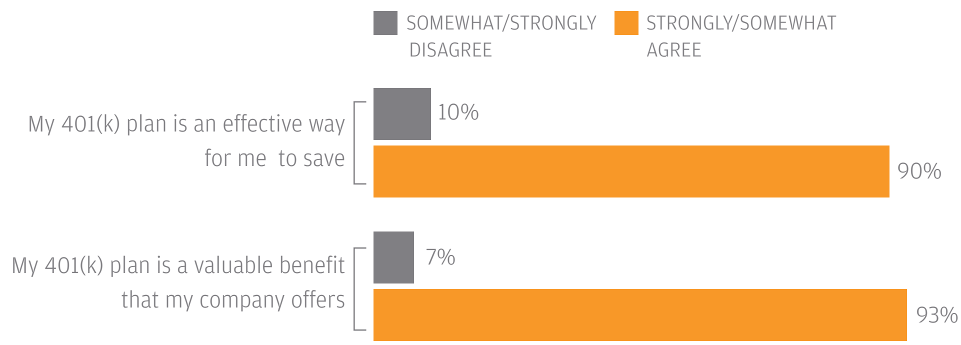
It seems a majority of participants are prone to investor inertia and appear to have mixed feelings about devoting more time and energy to retirement investing. Nevertheless, nine out of 10 participants believe their 401(k) plan is an effective way to save for retirement, and even more agreed that it was a valuable employee benefit. There is ample evidence that participants understand the fundamentals of their plan well enough to appreciate the value of payroll-deducted contributions as a disciplined means of building retirement savings.

For instance:

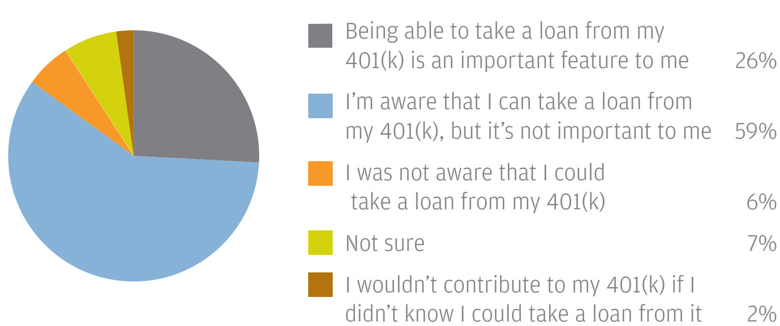
- Three times as many participants began contributing to a 401(k) plan before they turned 35 than did after that age (59% vs. 19%), indicating an appreciation for investment returns and time value of money.
- Although 87% of participants were aware that they could borrow funds from their 401(k) plans, only 26% considered the information an important feature. 59% said the feature was not important to them.
- 95% of participants continued to contribute to their plans despite the poor economy, the severe drop in stock prices and some employers reducing or eliminating matching contributions.

The ability to borrow against your 401(k) plan was thought to be one of the features that encouraged enrollment. Most participants don't think it's important.

3.8 HOW MUCH DO YOU AGREE OR DISAGREE WITH EACH OF THE FOLLOWING STATEMENTS?



3.9 WHICH OF THE FOLLOWING BEST DESCRIBES YOU IN RELATION TO THE ABILITY TO TAKE A LOAN FROM YOUR 401(K)?



Investment Dynamics

IS INVESTING FOR RETIREMENT TOO HARD?

One thing the past 18 months have demonstrated is a degree of disconnect between participation in 401(k) plans and doing what it takes to successfully plan for retirement. Perhaps participants have believed that by doing the one, they were doing the other. In reality, there is more to achieving the goal of living *through* retirement than managing the money that gets automatically withheld every pay period and deposited into an investment account. People's lives vary and changes tend to occur over the course of a lifetime; such as, marriage, children, changing careers, relocation and promotions. Economic cycles bring change, as we have seen all too well. Automatic products, such as target date funds, can account for age. But what about everything else that makes one person's life different from another's? If participants were to do what is necessary to factor in such changes and adjust retirement planning accordingly, would it be too hard? Would anyone do it?

MAPPING THE EASY SPACE

Knowing that it could never be easy enough for some participants, we wanted to find out what most participants' idea of "easy" is, and if there were some things they would be willing to spend more time on than others. We asked participants to agree or disagree with a series of general statements that expressed varying levels of engagement with the activity of retirement planning.

Three statements were considerably more popular than the rest, with an average of better than 80% agreeing somewhat or agreeing strongly.

- At retirement, I would be interested in an investment that allows me to take my proceeds from my 401(k) plan and apply it into a product that provides a guaranteed monthly benefit for my lifetime
- I would welcome assistance pulling all my sources of retirement funds together so I could more easily see where I stand
- I would be willing to spend 10 minutes per year to help me understand if I am on track for a comfortable retirement

The 10-minute per year check-up was a huge hit, with nearly everyone agreeing somewhat and half agreeing strongly with the idea. The description of an annuity-style product that guarantees a monthly benefit seems also to have struck a chord with most participants, in addition to assistance in consolidating an investor's sources of saving.

Three of the remaining statements dealt with the amount of time participants felt they had available to devote to retirement planning.

- I have enough time to pay a lot of attention to my retirement investments on a regular basis
- I am willing to spend time planning for my retirement but I don't know how to get started
- If I could push a button for retirement where I could hand over my retirement planning and investing to a financial professional, and not have to think about it at all, I would

In this case, more than half did *not* agree that they had the time to keep track of their investments on a regular basis. On the upside, half were willing to make time if someone would help them get started. More participants liked the idea of making things easier by handing it over to a professional, but not by much.

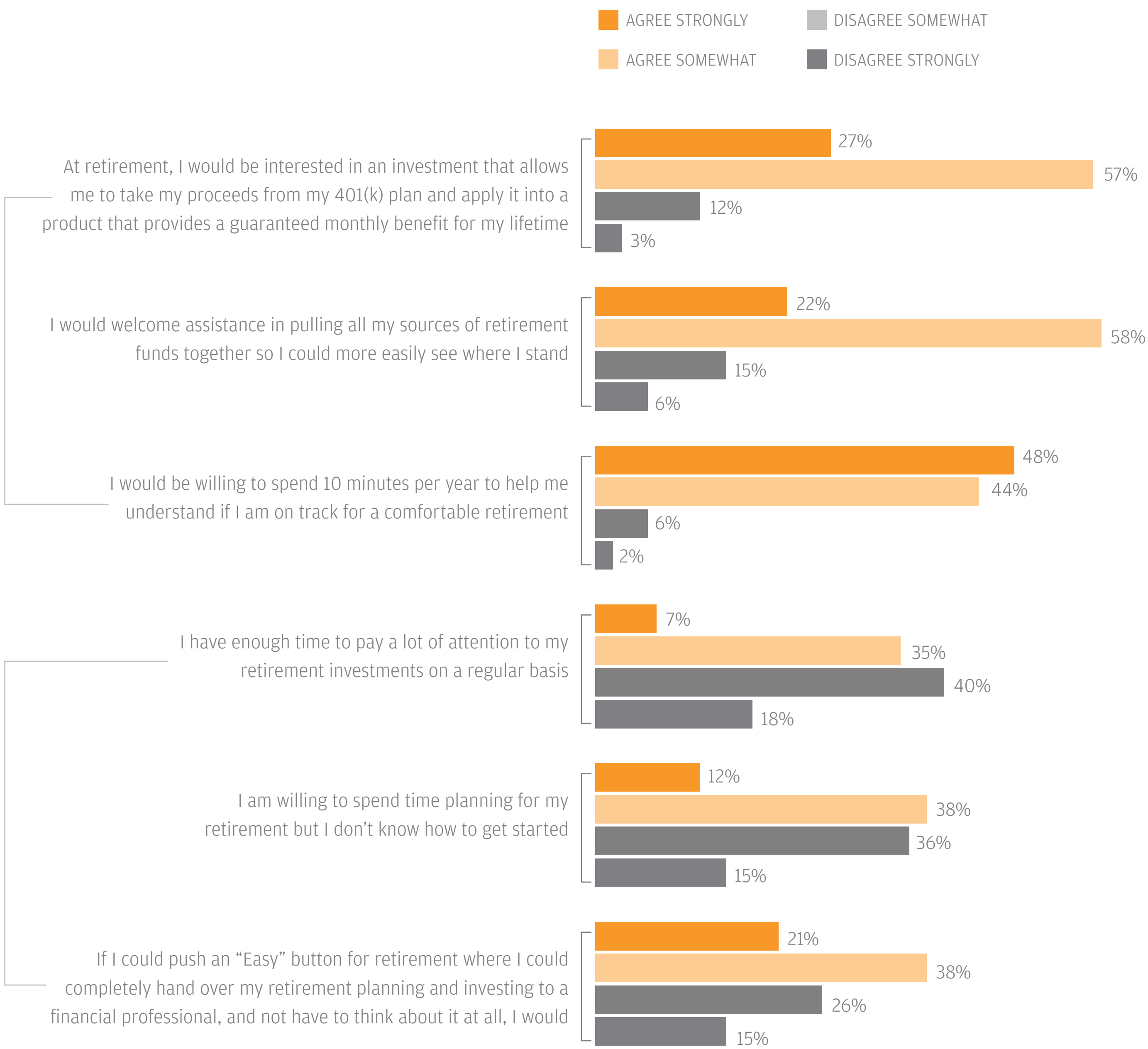
Clearly, if time spent equals "harder," the majority of participants prefer the easy way out. Even so, 40% thought handing it all off to someone else was not a great idea. Taken together, the six statements seem to define a place where participants want to know where they stand at a glance while having the option to put some things on "automatic."

AMBIVALENT, SOMEWHAT AMBIVALENT, NOT AT ALL AMBIVALENT

Looking at figure 3.10 we see the responses to the entire group of statements together. What are participants really saying about their involvement and motivation toward retirement planning? With the exception of the 10-minute checkup, what stands out is the middle ground, when you consider that the answers *Somewhat agree* and S*omewhat disagree* each contain a healthy dose of the other. You begin to see that a large majority of participants could go either way on most of these statements indicating they're unaware of what products/services are available, or are not compelling. Perhaps what we're seeing is evidence of plan participants thinking and acting on an individual basis when it comes to engaging in their retirement planning process.

Investment Dynamics

3.10 HOW MUCH DO YOU AGREE OR DISAGREE WITH EACH OF THE FOLLOWING STATEMENTS?

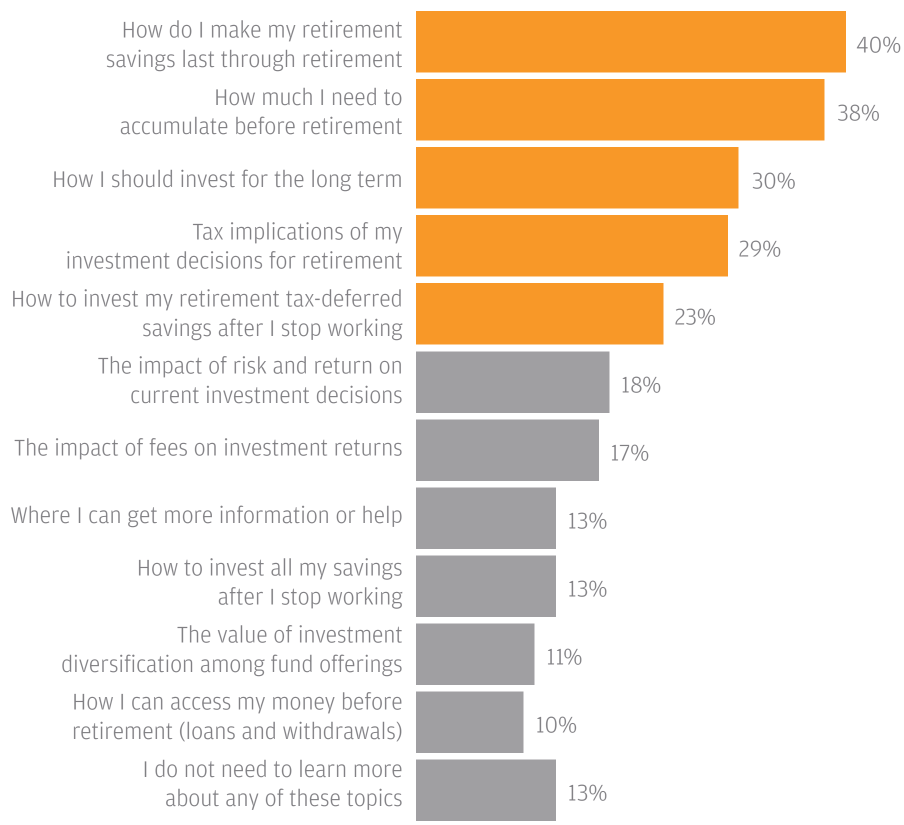


Investment Dynamics

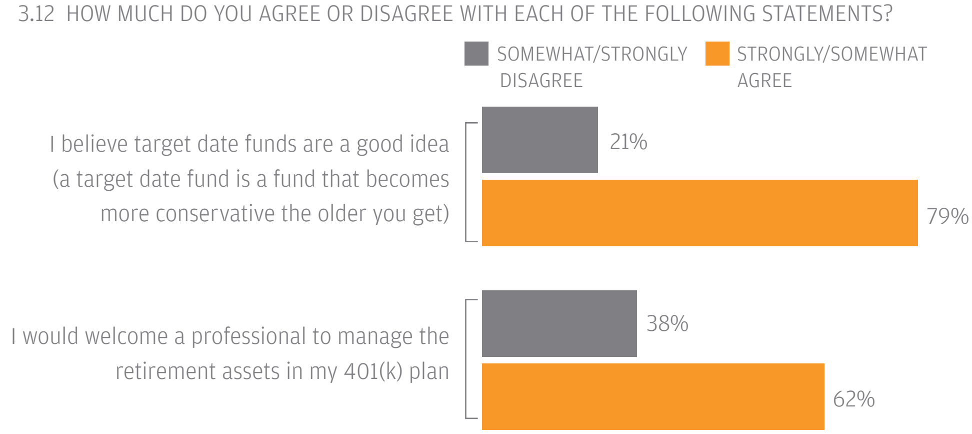
NOT TO, BUT *THROUGH* RETIREMENT

Figure 3.11 illustrates another data set that deserves a wider look. In Part One, we used the responses to a few of these 401(k) topics in our profile of the Accidental Investor. Here, we point out that the top five topics on the list concern long-term issues with implications carrying well beyond retirement age. Clearly, participants are most interested in making sure that what they do now has some chance of creating enough wealth to last the rest of their lives. This conclusion is supported by the keen interest (84%) in a guaranteed monthly payout, as well as the popularity of target date funds (79%) that automatically reallocate holdings to become more conservative as the investor gets older. And it also accounts for the 62% of participants who would welcome the services of a professional manager.

3.11 LISTED BELOW ARE TOPICS ABOUT WHICH 401(K) PARTICIPANTS LIKE YOU OFTEN HAVE QUESTIONS. PLEASE SELECT UP TO THREE TOPICS WHERE ADDITIONAL INFORMATION WOULD BE MOST VALUABLE TO YOU.



3.12 HOW MUCH DO YOU AGREE OR DISAGREE WITH EACH OF THE FOLLOWING STATEMENTS?



Investment Dynamics

People value their 401(k) plans. And they know enough to understand and believe that investing in stocks may still be the best bet for the average person to accumulate wealth over the long term. They also understand (on some level) that risk grows proportionately with reward. They are selective about this knowledge, however, and tend to gloss over the value of consolidating reward by managing risk appropriately. Such disregard manifests as investor inertia and results in unnecessary exposure to market risk. This risk became a reality for those nearing retirement age with over 20 years of tenure, whose 401(k) balances averaged more than a 25% loss in 2008 and early 2009.[13]

[13] EBRI Issue Brief #326, February 2009.

Moving participants through choice

PARADOX

The recent market downturn reveals an interesting paradox about defined contribution plans. Participants are given opportunities to exercise autonomy and responsibility in making choices regarding their retirement savings and investment accounts. They decide matters of risk and reward over time for themselves. However, most participants do not spend much time on their accounts once they have enrolled and decided on an initial investment allocation. And so we are beginning to see more and more hybrid plans that combine defined benefit style design into defined contribution plans and result in participants who are even less engaged in their retirement planning.

BEHAVIOR NOT SURPRISING

Our research shows three-fourths of 401(k) participants made no changes whatsoever to their investment allocations from the time we surveyed in spring 2009. Other research confirms that those nearing retirement age suffered significant losses to their 401(k) balance as a result of being over exposed to equities. Still, participants across the board consider their plans good values and 95% *continued their contributions*, even as the markets dropped and some employers elected to suspend matching contributions.

ONE SIZE DOESN'T FIT ALL

Despite opportunities to customize individual financial goals, *the defacto standard retirement savings goal has always been the same for everyone:* 70% of pre-retirement income at age 65. To make the assertion that everyone should aim for a 70% wage replacement ratio is as plausible as saying everyone should weigh 150 pounds. "*The number*" is different for every individual. To accurately project the number for an individual, we need to understand his or her lifestyle goals in retirement and realistic healthcare costs. The answers will help move each participant to a more meaningful number.

INCOME IN RETIREMENT

Retirement is no longer being thought of as a homogenous life of leisure. Shifting economic and sociological conditions have resulted in different ideas about life at retirement age and beyond. For instance, our research shows 58% of participants think there is some chance they would outlive their retirement. And the subject of how to make retirement savings last through retirement garnered the most interest from among 12 plan-related topics. The central message of 401(k) participation is that, ultimately, each of us is responsible for meeting our own retirement goals; however, options are critical to achieving our goals. While 70% of pre-retirement income works for many, it doesn't work for all. *The default 70% is average and our research indicates that most do not consider themselves to be average.*

PLAN DESIGN OPTIONS HELP

The survey indicates that participants trust their own decision-making more than twice that of their employer and more than five times of the government, and yet it also indicates they have lost confidence in the ability to reach their retirement goals. Smart plan design provides product options that address age-related asset allocation as well as lifetime income concerns. The challenge is to develop the ability to meet participants on their own terms. Qualified Default Investment Alternatives, auto-suite provisions and keeping an eye on the legislative horizon will continue to help participants.

Experience has shown that participants won't devote time to retirement planning, even though they know it's important. While the retirement industry has become more diligent in communicating the benefits of participation, there is an underlying complexity that prevents people from engaging in the process. Study after study shows if it were easier and took less time, more would do it. Providers and plan sponsors must bridge the gap between retirement vision and retirement readiness. Plan design features and relevant products need to help participants make the right decisions throughout their working lives to positively affect their retirement outcomes. These issues should be part of the discussion in the retirement industry if we are going to prove that a generation of Americans will be able to live comfortably through their retirement utilizing their 401(k) savings.

Methodology

The 401(k) Investor study was conducted online within the United States by Harris Interactive on behalf of J.P. Morgan from April 24 to May 1, 2009 among 1,077 respondents. All are U.S. respondents age 21 or older who are employed full-time or part-time, and not retired or self-employed, and employed in companies with a least 50 employees and have contributed to their 401(k) plans within the past 12 months. Those in sensitive job industries and those with sensitive job titles were not included. Data for age, sex, race/ethnicity, educations, region and household income were weighted to be representative of the U.S. adult populations age 21 or older who are employed full-time or part-time in companies with at least 25 employees.

Data for this survey was collected by Harris Interactive on behalf of J.P. Morgan; J.P. Morgan was responsible for the data analysis and reporting. Due to rounding differences, data may not add up to 100%.

About Harris Interactive®

Harris Interactive is a global leader in custom market research. With a long and rich history in mulitmodal research that is powered by our science and technology, we assist clients in achieving business results. Harris Interactive serves clients globally through our North American, European and Asian offices and a network of independent market research firms. For more information, please visit www.harrisinteractive.com.

PREPARED BY;

Diane Gallagher, Vice President, Head of Participant Communications & Education
Sherry Slade, Vice President, Research

CONTRIBUTORS;

Kirk Isenhour, Vice President, Head of Marketing
Margaret Cox, Vice President, Marketing
Laura Rodgers, Vice President, Marketing
Natalie Atwater, Vice President, Communications
Beth Miller, Assistant Legal Counsel, Legal and Compliance
Jill Pierce, Legal
Kelly Staudenmyer, Marketing

DESIGN BY;

Cydney Reece, Retirement Plan Services Design Studio

J.P.Morgan