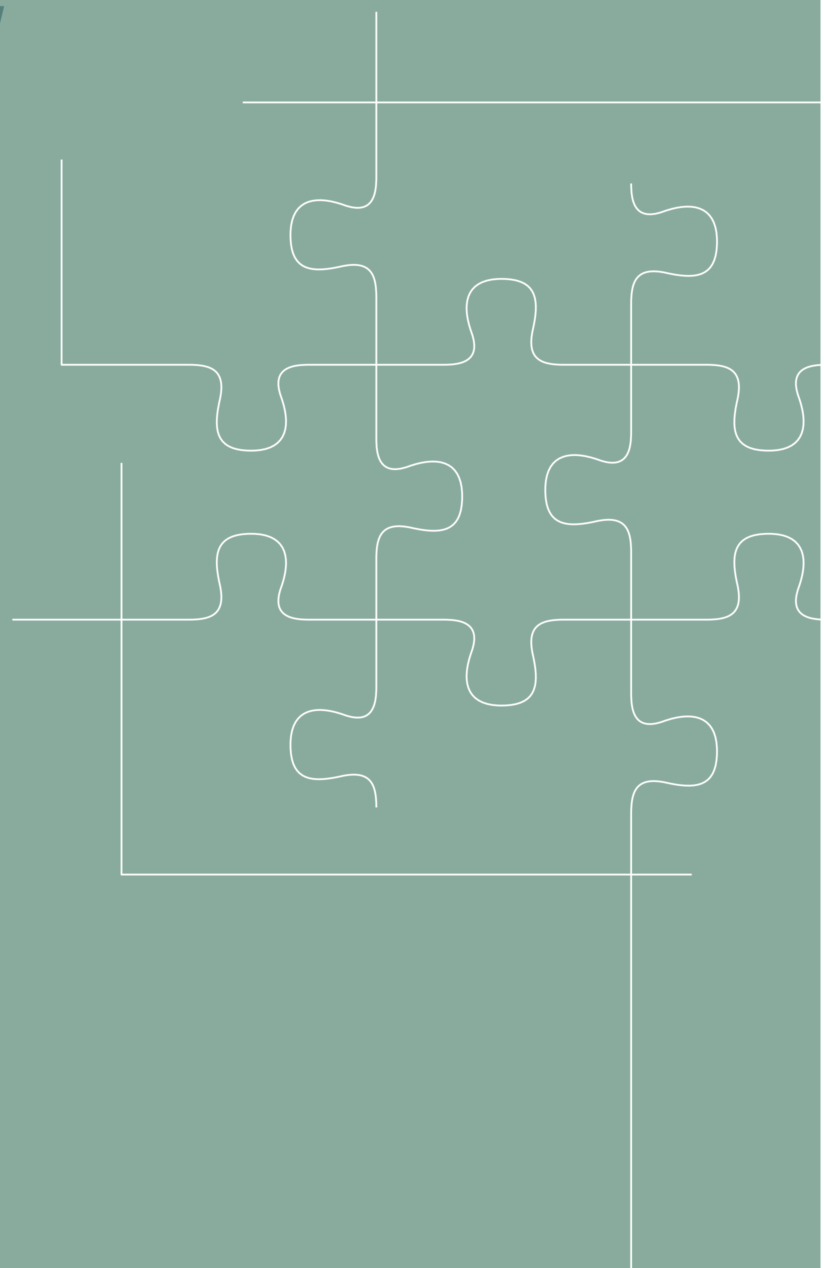
January 2016

DC INVESTOR SURVEY

Biannual Report



Generation DC
How age, life stage and experience affect retirement knowledge and needs among participants aged 22-50

STATE STREET GLOBAL ADVISORS

About the Survey

The SSGA DC Investor Survey was developed to give a voice to the people who interact with and invest in defined contribution plans. Insights into participants' beliefs, attitudes and behaviors can inform improvements to DC plans and help participants achieve greater success in planning for and enjoying retirement.

The January 2016 survey focuses on the beliefs, attitudes and behaviors of participants aged 22-50, a cohort we have named "Generation DC." Topics for research and analysis included:

- The importance of life stages in influencing participants' needs relative to their retirement plans
- The role of intuition and rules of thumb in financial decision-making
- Financial literacy

Survey Methodology

This survey was fielded in partnership with Boston Research Technologies, an independent marketing research firm. To protect respondents' anonymity, Boston Research Technologies was responsible for survey administration and data analysis. SSGA received the aggregate data for analysis purposes only.

Data were collected in October 2015 using a panel of 1,500 U.S. workers, ages 22-50, who were employed on at least a part-time basis and offered a DC plan by their employer.

All opinions are based on this study unless otherwise noted.

Sampling Error

The sample has a maximum sampling error of +/- 2.5 percentage points.

GENERATION DC

Key Survey Findings

Common assumptions about the personality and preferences of Millennials and Generation X don't translate into real differences in how these groups think about retirement savings. Instead, there are widespread similarities in beliefs and attitudes across these two generations — the first populations for which defined contribution plans are the predominant workplace retirement savings vehicle. We have named this group "Generation DC." In one example of their similarity, 83% of this group said that saving for retirement is a financial priority.

The differences among these participants clearly emerge at specific life stages, such as the extreme ends of this age range (ages 22-25 and age 40+), which we believe reflects participants' experience with DC plans and their life stage, rather than any generational characteristics.

Engagement Opportunities

Plan sponsors can develop more effective engagement strategies that focus on the needs of participants at these life stages by:

Rethinking onboarding to simplify the message and connect to employees even in auto-enrollment

Engaging with younger participants at least once a year by providing a simple, three-point message about starting early, saving adequately and diversifying

Using technology to remind and nudge participants of all ages, while supplementing with thoughtful use of human guidance

Starting detailed retirement discussions as early as age 40 to take advantage of these participants' organic interest in their impending retirement

The Impact of Age and Experience

22-25 year olds

Most likely to admit they aren't sure if they are saving enough for retirement

Need help and welcome it from multiple sources

71% said an app would help manage their retirement savings

59% want to receive assistance from a human at least once a year

40+ year olds

Thinking seriously about retirement and have gained the knowledge and experience to better manage their savings

45+ year olds

29% said they don't understand investing, compared to 45% of Generation DC as a whole

Recorded the highest scores on seven basic financial literacy questions

UNDERSTANDING GENERATION DC

Although marketers and sociologists have spent years studying the characteristics of different generations to understand their preferences, these generational stereotypes appear to have little impact on DC plan participants' beliefs, knowledge and needs when it comes to retirement savings. In particular, we see broad commonalities in the beliefs and attitudes of members of the Millennial generation (ages 22-32, born between 1983 and 1993) and Generation X (ages 33-50, born between 1965 and 1982). The differences among these participants emerge only at the outer boundaries of these two age groups, which we believe reflects the participants' life stage and experience with DC plans, rather than any generational characteristics.

MILLENNIALS + GENERATION X = GENERATION DC

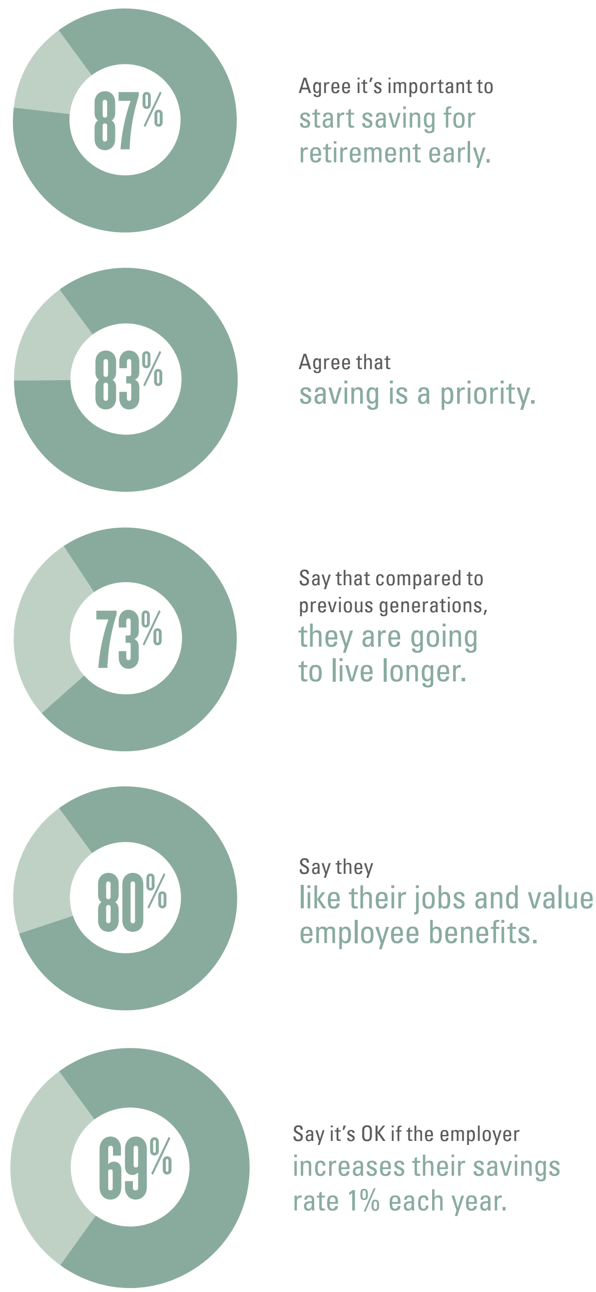
This observation is a major finding of SSGA's January 2016 Biannual DC Investor Survey, which sought to test generation assumptions by polling participants who are 22-50 years old — an age group we call Generation DC. This watershed population of employees is the first to travel the retirement journey with minimal access to traditional pension plans[1] and is instead testing what it means to self-fund and self-manage their retirement through an employer-sponsored DC plan. Our findings affirm that the retirement savings journey is universal in its goals, yet differentiated more around life stage than generational characteristics.

Instead of comparing Millennials with Generation X to discover new opportunities to engage employees, plan sponsors can focus on differences within Generation DC that are based on life stages such as joining the work force and entering middle age. Plan sponsors can then develop targeted engagement strategies to address the needs of participants at those life stages.

Shared Core Beliefs About Retirement

Across the board, members of Generation DC understand the importance of saving for retirement, value their DC plans and welcome assistance from their employers. These findings are positive signs that all of Generation DC is ready to engage with plan sponsors about their retirement savings.

Generation DC Takes Retirement Seriously



[1] Just 7% of workers only have access to a defined benefit plan at work. Employee Benefit Research Institute, "FAQs About Benefits—Retirement Issues," data as of 2011

The Unique Needs of the Youngest Participants

The youngest members of Generation DC are just embarking on their careers and have the least experience with DC plans. We see these conditions reflected in many areas of the survey.

Participants aged 22-25 are most likely to admit they aren't even sure if they are saving and they don't know much about retirement. Aside from their limited work experience and distance from retirement, automatic enrollment and a lack of continuous messaging could contribute to this group being uninformed about retirement savings.

The Youngest Admit They Need Help

65% **of Millennials ages 22-25** think they are saving, but don't really know much about retirement.

59% Generation DC, all   36% Gen X, ages 45-50

Despite the stereotype that Millennials prefer interacting with technology, our survey found that they also want hands-on, personal assistance. In fact, while 22-25-year-olds were most likely to say they want apps to help them prepare for retirement, they also were the most likely to say they want annual human intervention.

The Importance of Technology & the Human Touch

71% **of Millennials ages 22-25** agree that employers could make it easier with an app that keeps them informed and encourages them to take action.

66% Generation DC, all   52% Gen X, ages 45-50

59% **of Millennials ages 22-25** feel technology isn't really going to help and want to meet with a person once a year.

56% Generation DC, all   38% Gen X, ages 45-50

The youngest members of Generation DC also have the strongest ties to home, and are most likely to say that the influence of friends, family and co-workers shapes their beliefs and attitudes.

The Influence of Friends & Family

75% **of Millennials ages 22-25** say their family, friends, co-workers suggested they start saving in their workplace retirement plan.

68% Generation DC, all   49% Gen X, ages 45-50

Additionally, when we asked participants how they managed their finances — by intuition, rules of thumb and/or a budget — the youngest group was most likely to say that they manage their finances primarily by intuition. Although these young Millennials also use rules of thumb and budgets like the rest of Generation DC, we believe their heavy reliance on gut instinct to make financial decisions reflects their age and lack of experience managing retirement savings.

The Role of Intuition

63% **of Millennials ages 22-25** say they manage their financial life mostly by intuition.

55% Generation DC, all   35% Gen X, ages 45-50

Generation DC's Oldest Members Learn from Experience

Members of the 40-plus age group also are slightly different than the rest of Generation DC: They have the wisdom that comes from experience, and they finally see it — retirement is on the horizon.

Starting at age 40, retirement awareness begins increasing, and at age 45 the shift is complete: These employees are thinking seriously about retirement.

The Shift in Thinking by Age 45

29% **of Gen Xers ages 45-50** say they don't understand investing.

45% Generation DC, all
47% Millennials, all
51% Millennials, ages 22-25
42% Gen X, all

22% **of Gen Xers ages 45-50** say they don't read their retirement statements.

41% Generation DC, all
43% Millennials, all
50% Millennials, ages 22-25
36% Gen X, all

The oldest members of Generation DC also have the highest level of financial literacy, as seen in their answers to a standard set of seven financial literacy questions. This suggests that financial literacy is achieved over time, through a combination of experience and repeated messaging from plan sponsors.

Despite their higher levels of financial literacy, the oldest members of Generation DC said they still rely in part on intuition (35%) and rules of thumb (54%) when making decisions. This trend means that most of your participants, even the older and more literate ones, manage their financial lives through a combination of tools and tactics.

Financial Literacy Increases with Age

23% **of Gen Xers ages 45-50** incorrectly said buying a single company stock usually provides a safer return than a mutual fund.

50% Generation DC, all
54% Millennials, all
55% Millennials, ages 22-25
43% Gen X, all

91% **of Gen Xers ages 45-50** answered this question correctly: If you invested $100 in a savings account with a 2% interest rate, how much would you have after 5 years?

72% Generation DC, all
71% Millennials, all
74% Gen X, all

BEST PRACTICES

For Plan Sponsors

The DC Investor Survey shows that focusing on age and experience, rather than more culturally defined generational brackets, helps provide a better way for plan sponsors to identify and address the unique needs of participants at different stages of their lives. Even the youngest participants have a vision of retirement and understand the importance of saving. Consistent reminders about key retirement topics can guide those participants until after age 40, when they appear ready to engage with retirement planning on a more sophisticated, technical level.

Plan sponsors can study their own Generation DC participant populations to find additional differences based on life stage that create opportunities for engagement. In the meantime, consider the following actions:

FOR ALL PARTICIPANTS

- Frame communications around what participants know versus what they need to know. For example, lead with an idea such as, "Living longer = saving earlier. Take action now."
- If you don't already auto-escalate, put it on your plan design agenda.
- Develop engagement strategies that connect participants' use of intuition and rules of thumb to actionable solutions. For example, show how saving early pays off, then take them through two or three simple steps that nudge them to an action point, such as increasing savings rates or reducing spending.

FOR AGES 22-25

- Rethink your onboarding to simplify the message and connect to the employee — even in auto-enrollment. Also engage with younger participants at least once a year — or more frequently for new employees — by providing a simple, three-point message about starting early, saving adequately and diversifying.
- Digital solutions shouldn't replace personal help for younger participants. Instead, technology can remind and nudge participants of all ages, supplementing thoughtful use of human guidance.
- Use the influence of family when engaging the youngest participants. Try communications oriented to parental messages, such as, "Your dad called to remind you to save more." Or identify older employees to serve as mentors for new participants, sharing their experiences and advice for making the best use of their plan.

FOR THE 40+ CROWD

- Don't wait until age 50 or 55 to engage participants in detailed retirement planning discussions. Start at age 45 or even age 40 to take advantage of these participants' increasing, organic interest in retirement-related topics.
- Develop engagement strategies that get into the hearts and minds of the 40-plus cohort. For example, help them understand the importance of maintaining retirement savings even when saving or paying for children's educations. Encourage them to focus on bridging the gap between accumulation and decumulation by setting clear five-, 10- and 15-year goals between now and retirement.

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