charles SCHWAB

Bridging the gap between 401(k) sponsors and participants

Turning differing views about retirement planning into shared solutions

Own your tomorrow™

For 30 years, 401(k) plan sponsors have been working hard to help employees be financially prepared for retirement. However, today's reality is that most participants are falling short of the savings they'll need to retire comfortably.[1]

Now two studies* reveal a gap between sponsor and participant approaches to retirement planning—plus some practical insights on creating a shared solution.

* Both studies were commissioned by Schwab Retirement Plan Services, Inc. and Schwab Retirement Plan Services Company. Both entities are collectively referenced in this report as "Schwab." A sponsor study was fielded by CFO Research Services. A participant survey was fielded by Koski Research.

Executive summary

Employers who sponsor 401(k) plans and the employees who contribute to them share a common goal: to get the most from their plan. For sponsors, that can include helping participants save successfully, gaining competitive advantage from their benefit plans, and meeting the requirements of their fiduciary role. For most participants, retirement plan savings will likely affect the very necessities of life—housing, food, medicine, health care—for many years to come.

Clearly, the stakes are high. In today's unpredictable financial environment, many plan sponsors are looking for ways to help participants make better progress toward a comfortable retirement. However, past research has shown that most retirement plan participants lack sufficient savings for retirement.[1, 2] New fee disclosure regulations and industrywide uncertainty about their impact further complicate matters.

In this setting, Schwab Retirement Plan Services, Inc. and Schwab Retirement Plan Services Company (collectively referenced as "Schwab") commissioned two studies in 2011 to explore the views of sponsors and participants. Our findings revealed that while sponsors and participants aligned on their ultimate goal to get the most from their 401(k) plan, they held distinctly different views about how best to achieve that goal.

For instance, a majority of participants indicated they lacked the time, knowledge, or experience to manage their own retirement investments. Most were interested in professional investment management. In contrast, most sponsors responded they planned to continue promoting do-it-yourself tools, workshops, and educational campaigns.

These and other findings reveal a gap between sponsors and participants, stemming from how each group thinks their shared goals can be achieved. In the remaining pages of this report, we'll delve deeper into the findings of both studies, use additional industry studies to add context to the current landscape, and offer potential solutions to bridge this gap between sponsors and participants.

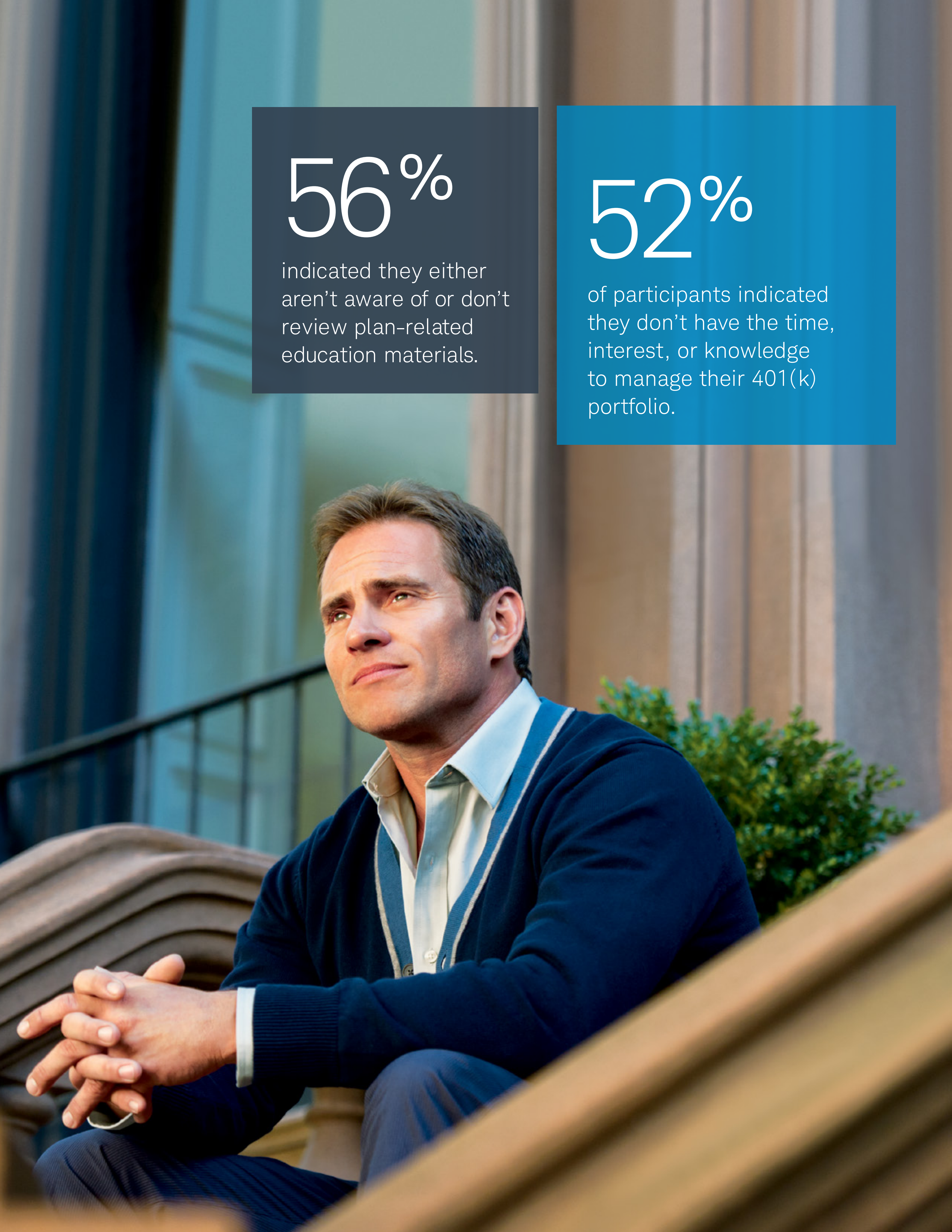
While employers and employees align on their 401(k) plan goals, they hold distinctly different views about how best to achieve success.

56%

indicated they either aren't aware of or don't review plan-related education materials.

52%

of participants indicated they don't have the time, interest, or knowledge to manage their 401(k) portfolio.



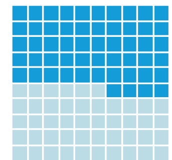
Key findings

Sponsor perspective

- 54% of sponsors reported that participants aren't taking full advantage of their plan's investment options, features, and services.
- To help engage employees in their plan, a large majority of sponsors indicated they planned to continue or increase their use of traditional outreach methods, such as printed educational materials (93%), interactive planning tools (93%), and in-person workshops (81%).
- A majority of sponsors reported that they're using or considering automatic solutions; 45% were currently auto-enrolling employees, and another 25% were very or somewhat likely to do so in the near term.
- Only 16% of sponsors indicated they planned to adopt or promote personalized savings and investment management through a third-party advisor.

Participant perspective

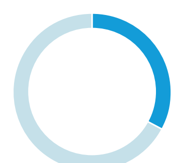
- 52% of participants responded they don't have the time, knowledge, or experience to manage their 401(k) portfolio.
- 73% indicated they spend less than eight hours each year managing their 401(k) plan, and 45% revealed they spend less than four hours.
- 56% answered they either aren't aware of or don't review plan-related education materials.
- 30% didn't know they paid any fees for their 401(k) plan; of the 70% who knew they paid something, 95% didn't know about fund operating expenses, and 67% didn't know about plan administration fees.
- 83% of participants were interested in receiving professional investment management from their employer as part of their 401(k) plan.



54%

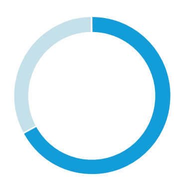
of sponsors reported participants aren't taking full advantage of their plan's investment options, features, and services.

More than half of sponsors reported that they're using or considering automatic solutions.



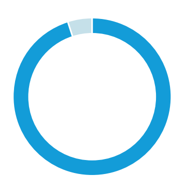
30%

of participants **didn't know they were paying 401(k) fees.**



67%

of those who knew about fees **didn't know they included administrative fees.**



95%

of those who knew about fees **didn't know they included investment fund operating expenses.**

Studying the situation

With a national backdrop of inadequate retirement savings and new fee disclosure regulations, Schwab commissioned two studies to uncover what sponsors and participants viewed as important in planning for a financially secure retirement.

Sponsors

To study the sponsor perspective, Schwab commissioned CFO Research Services, which fielded an online blind survey in July and August of 2011. The survey—which featured multiple-choice and open-ended questions—included 215 senior finance and human resources executives and sought to better understand how sponsors may operate their 401(k) plans differently to address the challenges of today's retirement landscape. The sponsor respondents worked at U.S.-based companies in varied industries. All companies had annual revenues over $100 million. They may or may not have had retirement plans serviced by Schwab. Throughout this paper, we'll refer to the CFO Research study as the *sponsor study.*

Participants

To study the participant perspective, Schwab engaged Koski Research, which fielded an online blind survey of 401(k) plan participants in August and September of 2011. Throughout this paper, we'll refer to the Koski study as the *participant study.* The survey sought to understand participants' views on how their plan was working—or not working—for them.

Despite efforts by sponsors to educate participants, those in the study were not taking all the steps needed to prepare for retirement.

The sample included 1,005 participants who may or may not have been participants in plans serviced by Schwab. They:

- Were ages 18 to 65
- Worked at companies with 25+ employees in a range of industries (excluding schools, hospitals, and government agencies)
- Participated in their company's 401(k) plan
- Had at least $5,000 in retirement savings
- On average, had household income of $96,000 with $171,000 saved for retirement and 20 years until retirement

Because these participants' average household incomes and retirement savings substantially exceeded national medians of about $60,000[3] and $25,000,[4] respectively, we believe this sample should reflect more rather than less engagement in and knowledge of retirement planning than the population included in most broad-based industry surveys. Our primary objectives were to explore the views of highly engaged participants on their progress toward retirement success, and uncover how they managed their plan participation.

Looking at the results of both the sponsor and participant studies, we found that, despite efforts by sponsors to educate participants on 401(k) offerings, even the above-average (as compared with the national median) participants represented in our survey population were not taking all the steps needed to prepare for retirement.

CFO Research Services

What:
Online blind survey

When:
July–August 2011

Who:
215 senior finance and HR executives at U.S. companies with annual revenues of $100 million or higher. Respondents may or may not have been Schwab clients.

Koski Research

What:
Online blind survey

When:
August 30–September 1, 2011

Who:
A nationally representative sample of 1,005 participants in 401(k) plans. Respondents may or may not have been participants in Schwab plans.

Shared reality

The Federal Reserve, in its most recent Survey of Consumer Finances, reported that the recent economic crisis left the median American family in 2010 with no more wealth than in the early 1990s.[5] This lack of financial progress in light of the current economic environment suggests an ever-greater need for sound retirement planning. Indeed, some 90 percent of respondents in the sponsor study indicated they felt their 401(k) plan objectives were as important or more so in light of the economic downturn.

KEY INSIGHT

90% of *sponsors* indicated their 401(k) objectives are as important or more important in light of the economic downturn.

70% of *participants* indicated they are relying on their 401(k) to be their main or only source of retirement income outside of Social Security.

Consider

Make the most of shared sponsor and participant goals. Focus on plan design features aimed at increasing participants' success.

Sponsor strategy

Take steps to understand how participants view and interact with their retirement benefit—and consider new ways to positively affect their savings outcomes, such as auto-enrollment and savings rate increases. Work with your provider to ensure you're implementing solutions that will move the needle on your plan goals.

Beyond their fiduciary obligation, employers may have a vested interest in helping participants down the path toward a comfortable retirement. 401(k) plans can be a powerful tool for recruiting and retaining top talent and keeping participants focused on their work.

That's because participants also place great value on their 401(k) plans. A recent study showed that nearly three-fourths of participants are relying on their 401(k) plan to be their main or only source of retirement income outside of Social Security.[6] It also found that more than 82% of participants were more focused at work when their personal finances were in order.

Through the design of their 401(k) plans, employers have an opportunity to help empower and guide employees toward reaching their retirement goals. How employers address this opportunity can affect their ability to recruit, retain, and motivate the best workers. For sponsors who want to make a difference in the financial well-being of their employees, focusing more on outcomes than the traditional set of plan activities may help add value not just for employees, but for employers as well.

Inadequate preparation

Industry research beyond the two studies presented here paints a bleak picture. Few Americans are saving quickly enough to be financially secure in retirement.[1] Today, nearly 50 million Americans have 401(k) accounts, with assets totaling some $3 trillion.[7] But three out of four participants aren't on track for a comfortable retirement.[1] Almost nine in 10 don't think they'll have enough money saved when they get to retirement.[8] And 20 percent of American workers are planning to delay their retirement.[9]

Americans' life spans are also increasing, meaning we'll need our retirement savings to last longer than ever. In the last 30 years, the number of Americans over age 90 has almost tripled—to nearly 2 million—raising a real risk that even those who think they're ready for retirement might outlive their savings.[2,10]

Sponsors have been working diligently for 30 years now to give participants what they need to make the most of their retirement plan. But most participants are still not prepared for retirement. Are they getting the right kind of help?

According to McKinsey & Company, the average American working household has a retirement readiness index (RRI) of 63 out of 100.[11] That means the average household may face a savings shortfall of nearly $250,000 at retirement.

To maintain their standard of living in retirement, households need an RRI of 100. An RRI between 80 and 100 results in a lower standard of living in retirement by affecting mainly discretionary spending. An RRI below 80 means sacrificing spending on essential needs, such as housing, food, and health care.

KEY INSIGHT

Nearly 50 million people have 401(k) accounts, and their assets total some $3 trillion.

More than half of respondents in the *participant* study had calculated the savings they thought they'd need in retirement—a proportion larger than in a typical study. According to Schwab's analysis, many were not on track for the savings they'd need to replace their income in retirement.

Consider

While more people than ever are saving in the 401(k) system, there is still work to do to help them maximize this benefit. The industry's traditional approach to engagement may not be helping the majority of participants.

Sponsor strategy

Work with your provider to identify plan goals that extend beyond the traditional activity-based measures.

3 of 4 participants **aren't on track** for retirement.[1]

Almost 9 in 10 **don't think they'll have enough money saved** when they reach retirement.[8]

20%

of American workers **expect to delay retirement**.[9]

How did we get here?

Over the past 30 years, defined benefit pension plans have declined in popularity, and defined contribution plans have become dominant. In the process, the responsibility for retirement savings—and the very real risk of outliving those savings—has landed on the shoulders of participants. Workers are responsible for managing their own investments and ensuring their own retirement income.

To help participants save for retirement, sponsors have provided an increasing array of fund choices, plan features, enrollment campaigns, educational materials, workshops, and tools. In other words, the migration from defined benefit to defined contribution plans shifted sponsors' focus from managing defined benefit plan risk to activities intended to engage, inform, educate, and drive positive savings for participants. But, as noted, those activities have yet to yield widespread retirement readiness.

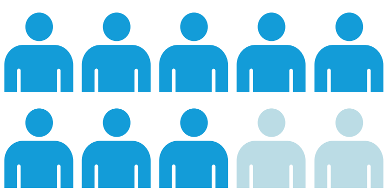
In looking at the findings of both of our studies, we see some fundamental disconnects in participant and sponsor thinking—as well as potential opportunities to bridge these gaps.

Let's consider them one at a time.

Nearly 50 million Americans have 401(k) accounts, with assets totaling some $3 trillion.[7]

Expressing the cost

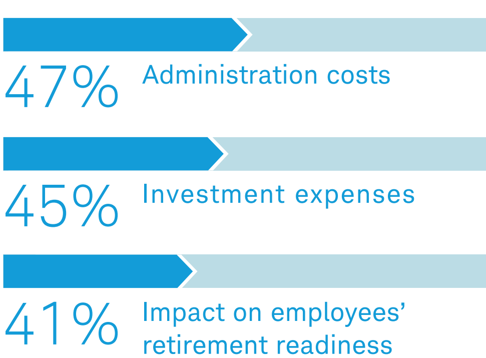
The Employee Retirement Income Security Act of 1974 (ERISA) requires plan sponsors, in their role as fiduciaries, to operate their plans for the exclusive benefit of participants and their beneficiaries. In so doing, sponsors perform many tasks, including ensuring that 401(k) services are necessary and fees are reasonable. And more than one-third of the finance and human resources executives in our sponsor survey indicated that the focus on plan costs was even more important because of the recent recession.



8 in 10 sponsors

reported that fee regulations would prompt them to re-evaluate plan administration costs.

Sponsors rank their cost concerns



Indeed, a 2011 industry survey showed that participants pay, on average, 91% of total plan fees, up from 78% in 2009.[12] Yet, only half of respondents (51%) in the sponsor study indicated that they were well equipped to justify the fees participants are paying.

Federal regulations that took effect in July 2012 require that participants be clearly informed about all costs they could pay as part of their plan. In advance of these new fee disclosure requirements, almost 8 in 10 respondents in the sponsor study said that fee regulations would prompt them to re-evaluate plan-related costs, and 64% indicated they would re-evaluate plan investment offerings. Some of these finance and human resources professionals indicated the recent recession made it even more important to reduce plan costs. They expressed concern about three cost areas:

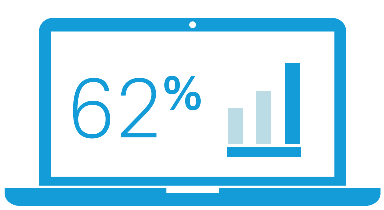
- Administration costs (47%)
- Investment expenses (45%)
- Impact of costs on employee retirement readiness (41%)

Note that this priority order means that sponsors expressed the most concern about the smallest component of total plan costs. Administration costs typically represent 16% of all-in plan fees, while investment operating expenses represent 84%.[12] In terms of impact on the participant's account, fund investment costs play a significant role, as we'll see later in this paper. In other words, if participant outcomes are a primary objective, investment operating expense should also be a high priority for sponsors.

A Government Accounting Office report, using a reasonable hypothetical scenario, shows the impact that investment fees might have on asset accumulation. In this scenario, cutting operating expense ratios by just 1% yields a 17% difference in asset value over 20 years.[13]

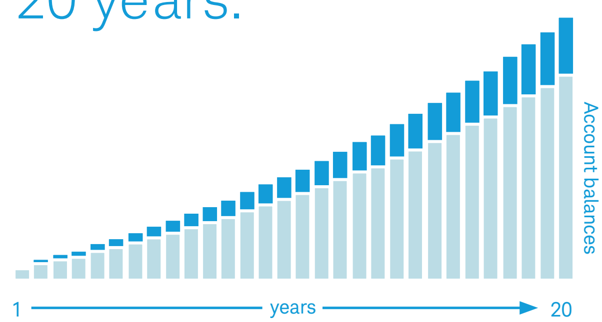
Understanding and communicating fees

Beyond the importance of cost in its own right is the issue of value—an issue that may help sponsors justify and validate that participant costs are commensurate with services received. Value is a way to describe the benefits sponsors and participants perceive from their plan, balanced against the cost that each pays. Research shows both sponsors and participants are paying for features and services they're not using, with 62% of human resources executives in the sponsor study reporting that participants don't take advantage of available investment options, plan features, and services.



A majority of HR executives reported participants don't take advantage of available investment options, plan features, and services.

Cutting 1% in investment operating expenses meant 17% more asset value over 20 years.



KEY INSIGHT

Most *participants* didn't know they paid fund operating expenses.

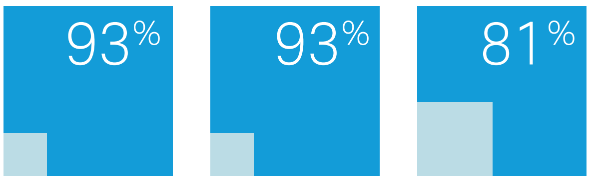
Sponsors were most concerned about administrative expenses.

Consider
In their concern over costs, sponsors may be focusing on a less impactful subset of costs instead of distinguishing between the fees that may add value and the fees that can be cut.

Sponsor strategy
Focus first on the most impactful costs participants pay: investment operating expenses. Consult your provider to determine how you can drive down investment operating expenses for your participants.

Effective paths to engagement

The participant survey respondents were confident about calculating the savings they'll need for retirement. Sixty-one percent indicated that they had determined their retirement needs and felt their savings would last, but that feeling may fall short of fact.



93% of sponsors are planning interactive retirement tools.

93% of sponsors are planning printed materials, emails, and newsletters.

81% of sponsors are planning live, in-person seminars or workshops.

KEY INSIGHT

Most *participants* indicated they don't have the time or interest to review their plan's educational materials or manage their investments.

Most *sponsors* answered they'll offer more planning tools, educational materials, and workshops to help participants get better results.

Consider
Offering participants more of the same tools may not generate a different result.

Sponsor strategy
Reconsider the use of educational methods that may be ineffective, driving activities among a small percentage of your participants. Instead, work with your provider to identify built-in plan features that work effectively to drive positive, broad-scale participant behavior in the plan.

The average participant in the study had a household income of $96,000 and had saved $171,000 for retirement with an expected 20 years until retirement. On average, these participants estimated they'd need $1.4 million for retirement. The difference between their savings and their calculated goal represents an eight-fold gap or more—a gap that will be difficult to close at best.

As an industry, sponsors and providers have sought to promote savings by educating participants, and survey results showed that sponsors expected to continue or expand this approach through their continued use of traditional education techniques:

- Interactive retirement planning tools planned by 93% of sponsors
- Printed materials, emails, and newsletters planned by 93% of sponsors
- Live, in-person seminars or workshops planned by 81% of sponsors

Making educational materials available to participants may be helpful to some. But it has not helped the majority of participants adopt the habits and behaviors they need to engage effectively with their retirement preparation.

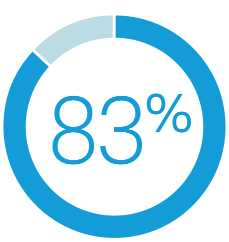
More than half of respondents in the participant study indicated they **didn't look at the plan-related educational materials they received.**

A helping hand

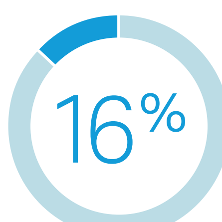
When it comes to effectiveness, professional advice is one key to better results. A previous Schwab study found several positive outcomes common to those using independent professional advice.[6]

They included:

- **Increased savings rates—**70% of participants who received and implemented 401(k) advice increased their deferral rates.
- **Portfolio diversification—**Participants who chose to manage their own portfolios invested in an average of 3.7 asset classes, compared with participants in advice-based portfolios, who invested in a minimum of 8 asset classes.
- **Periodic rebalancing—**Participants who received annual rebalancing as part of their plan had an increased annualized rate of return over those who never rebalanced. Over the long term, this difference could have a significant impact on account balance. In addition, annual rebalancing may reduce exposure to market volatility.
- **Increased likelihood of staying the course—**Advice increased the likelihood that participants stayed true to their investment objectives, making them less reactive during volatile market conditions and more likely to remain in their original 401(k) investments during a downturn.



More than 8 in 10 participants expressed interest in professional investment management.



Fewer than 2 in 10 sponsors planned to promote it.

Help had real impact, increasing annual returns by nearly 3%.

KEY INSIGHT

83% of *participants* indicated they wanted professional management.

Many plans offer some form of investment advice, yet only 16% of *sponsors* expected to promote the professional investment management available in their plans.

Consider

Participants say they want more active, professional help, yet the majority of plan sponsors indicated they don't plan to promote it over the next year.

Sponsor strategy

Consider making independent, third-party advice the central focus of your plan. Make sure it's comprehensive, personalized, and set up to evolve with participants as their lives change.

Similarly, a Financial Engines and Aon Hewitt study found that, over five years, the portfolios of participants with **help** outperformed those who didn't have help 87% of the time. ***Help*** in this research is defined as target-date funds, managed accounts, and online advice. Help had real impact, increasing annual returns by nearly 3%.[14]

Interestingly, 83% of respondents in the participant study expressed interest in professional investment management, but just 16% of respondents in the sponsor study planned to promote it.

To help bridge this gap, sponsors may benefit from considering engagement options other than traditional tools, workshops, and educational approaches. Instead, consider promoting professional savings and investment management—particularly as an automatic feature of the plan—to help generate positive participant outcomes.

Participants with help did better than those without help 87% of the time.

On good behavior

Most employees eligible for a 401(k) plan face an array of choices. When to join? How much to contribute? What should I do when the market changes? Our finding from the participant study was that most participants devoted inadequate resources to making the choices available to them to manage their plan.

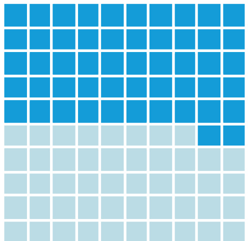
- 52% indicated they didn't have the time, interest, or knowledge to manage their retirement plan.
- 73% responded they spent less than eight hours per year managing their 401(k) investments.
- 45% answered they spent less than four hours per year managing their 401(k) investments.

Participants' level of involvement with their retirement plans reinforces the notion that, when it comes to promoting positive participant behaviors, opting them into a plan approach may offer a more powerful solution than giving them more materials designed to help them take action on their own.

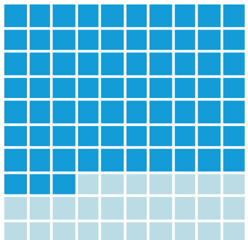
Two approaches that are relatively simple to implement and have been shown to support positive participant outcomes are auto-enrollment and automatic savings rate increases. Many sponsors have already taken steps to implement these features. Indeed, 45% of respondents in the sponsor study reported using automatic enrollment (with another 25% considering it), and 30% reported using automatic deferral rate escalation (with another 25% considering it).

As more sponsors consider how to effectively build in automatic features to enroll participants and increase savings, it may be worthwhile to consider how plan features can work together to help participants build savings over time.

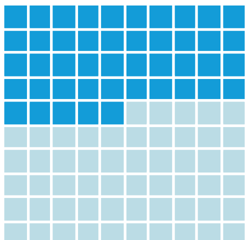
52%
didn't have the time, interest, or knowledge.



73%
spent less than eight hours per year.



45%
spent less than four hours per year.



Summary: Rethink your 401(k)

Although our research shows that sponsors and participants have differing perspectives on how best to prepare participants for a comfortable retirement, it also points out the real possibility of some shared solutions.

KEY INSIGHT

Low-cost investments could help *sponsors* reduce the fees participants pay and may increase asset value over time.

Building in independent, personalized advice and automatic plan features may meet *participants'* stated need for help.

Consider
Rethink your 401(k).

Sponsor strategy
Work with a provider that can help you deliver on your plan's potential through a clear focus on participant outcomes, cost reduction, and effective independent savings and investment management.

If you'd like to learn more about our approach to retirement plan success—and leverage what we've learned toward your own employees' long-term financial well-being—please contact your Schwab relationship manager or a Schwab representative at **877-456-0777.**

Balancing cost with benefit

The costs of 401(k) plans impact both participants and sponsors, but participants typically bear more than 90% of plan fees.[12] Although the market has substantially recovered since the 2008 downturn, we're still faced with a confluence of issues—market turmoil, fee disclosure, inadequate retirement savings—challenging innovative thought leaders to better understand and evaluate the impact of fees in relation to the services received by both participants and sponsors. To make the most of that evaluation, sponsors should concentrate first on the most impactful costs—investment operating expenses—and consider low-cost index funds as a replacement for more costly actively managed funds. Reducing costs even moderately may help participants realize better savings outcomes.

Opting for involvement

Participants, by their own admission, are in need of professional management. In the participant study, 83% of respondents were interested in this service. Although the majority of sponsors in the sponsor study indicated they would continue to provide traditional educational materials to urge participants into engagement with their savings plan, more than half also reported adoption or consideration of automatic plan features such as automatic enrollment and savings rate increases. In other words, sponsors are beginning to realize that better outcomes for participants may be achieved by a change in plan approach.

Innovative providers

To help your employees reach their retirement goals, work with your provider to adopt a plan approach and features designed to drive outcomes. At Schwab, we're committed to the possibility of improving retirement readiness and to sharing insights about the state of today's 401(k) plans. In short, we're committed to helping plan participants work toward the comfortable retirement they're seeking—while also supporting sponsors in their role.

Acting on insights: A strategy checklist

Taken together, insights from the sponsor and participant studies offer a strategic way forward for plan sponsors, while helping to promote positive retirement savings outcomes for plan participants.

- ☑ Consider new approaches to plan design that positively affect participants' savings outcomes, such as auto-enrollment and automatic savings rate increases.
- ☑ Work with your provider to identify plan goals that extend beyond the traditional activity-based measures.
- ☑ Focus first on the most impactful costs participants pay: investment operating expenses. Consult your provider to determine how you can drive down investment operating expenses for your participants.
- ☑ Reconsider the use of educational methods that may be ineffective. Instead, work with your provider to identify built-in plan features that work effectively to drive positive, broad-scale participant behavior in the plan.
- ☑ Consider making independent, third-party advice the central focus of your plan. Make sure it's comprehensive, personalized, and set up to evolve with participants as their lives change.
- ☑ Work with a provider that can help you deliver on your plan's potential through a clear focus on participant outcomes, cost reduction, and effective independent savings and investment management.

Notes on Schwab's 2011 research studies

CFO research study

The Changing Benefits of 401(k)s was initiated by Schwab in collaboration with CFO Research Services. All survey data collection and analysis was conducted online within the United States by CFO Research Services. A total of 215 interviews were conducted from July through August 2011, with plan sponsors. No estimates of theoretical sampling error can be calculated: A full methodology is available. The national survey constitutes The Changing Benefits of 401(k)s.

About CFO Research Services

CFO Research Services is the sponsored research group within CFO Publishing Corp., which produces *CFO* magazine. CFO Publishing is part of The Economist Group. For more information, visit cfo.com/research. CFO Research Services is not affiliated with Schwab Retirement Plan Services, Inc. or any of its affiliates.

Koski research study

401(k) Participant Survey was initiated by Schwab in collaboration with Koski Research. All survey data collection and analysis was conducted online within the United States by Koski Research. A total of 1,005 interviews were conducted between August 30 and September 1, 2011, with employees employed full time or part time and who participate in their employer's 401(k) plan. No estimates of theoretical sampling error can be calculated: A full methodology is available. The national participant survey constitutes the 401(k) Participant Survey.

About Koski Research

Koski Research is a marketing research firm that helps leading financial services firms use market research to improve decision making, generate front-page news, and stimulate communication efforts. Koski Research has conducted thousands of surveys and interviews among executives, individual and institutional investors, and intermediaries that have enabled financial services firms to have a deeper understanding of their clients and better meet their needs. For more information, visit koskiresearch.com. Koski Research is not affiliated with Schwab Retirement Plan Services, Inc. or any of its affiliates.

Sources

1. The Financial Engines National 401(k) Evaluation: Who Benefits From Today's 401(k)?, Financial Engines, 2010.

2. Issue Brief #344, Employee Benefit Research Institute, July 2010.

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*The study compared portfolio returns and risk levels of 401(k) participants using help at eight companies from 2006 through 2010. Plans included more than 425,000 participants and $25 billion in assets. All had three forms of help (target-date funds, managed accounts, and online advice) available to participants, although they introduced them at different times. Seven plans automatically enrolled new employees and automatically invested them in a target-date fund or managed account. Each participant's help classification was based on the form of help, if any, the participant was using when the data snapshot of the participant's 401(k) account was taken. Considering the difference in median returns across the different age groups, Help Participants, on average, experienced returns nearly 3% (292 basis points) higher than Non-Help Participants, net of fees. The performance difference ranged from 2.53% to 3.40% across the age groups. It's important to note that returns are median annual returns where each annual return for each participant is considered an observation. Thus, a participant who is in the analysis for all five years will have five separate observations in the data set. A participant who is in the analysis for only two years will have two observations in the data set, and a participant who is in the analysis for only one year will have one observation in the data set. We equal-weight the years, so that increases and any decreases in the number of participants across the years do not skew the results. This is different from mean (or average) compound returns, which would have one observation for each participant. This would be calculated by compounding each participant's returns over the five years in the report. Note that this would limit the data set to only those participants who have data available for all five years—a significant and potentially distorting limitation.

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