Generations:
Key drivers of investor behavior

Dean Hamilton
Investment Analyst

Agenda

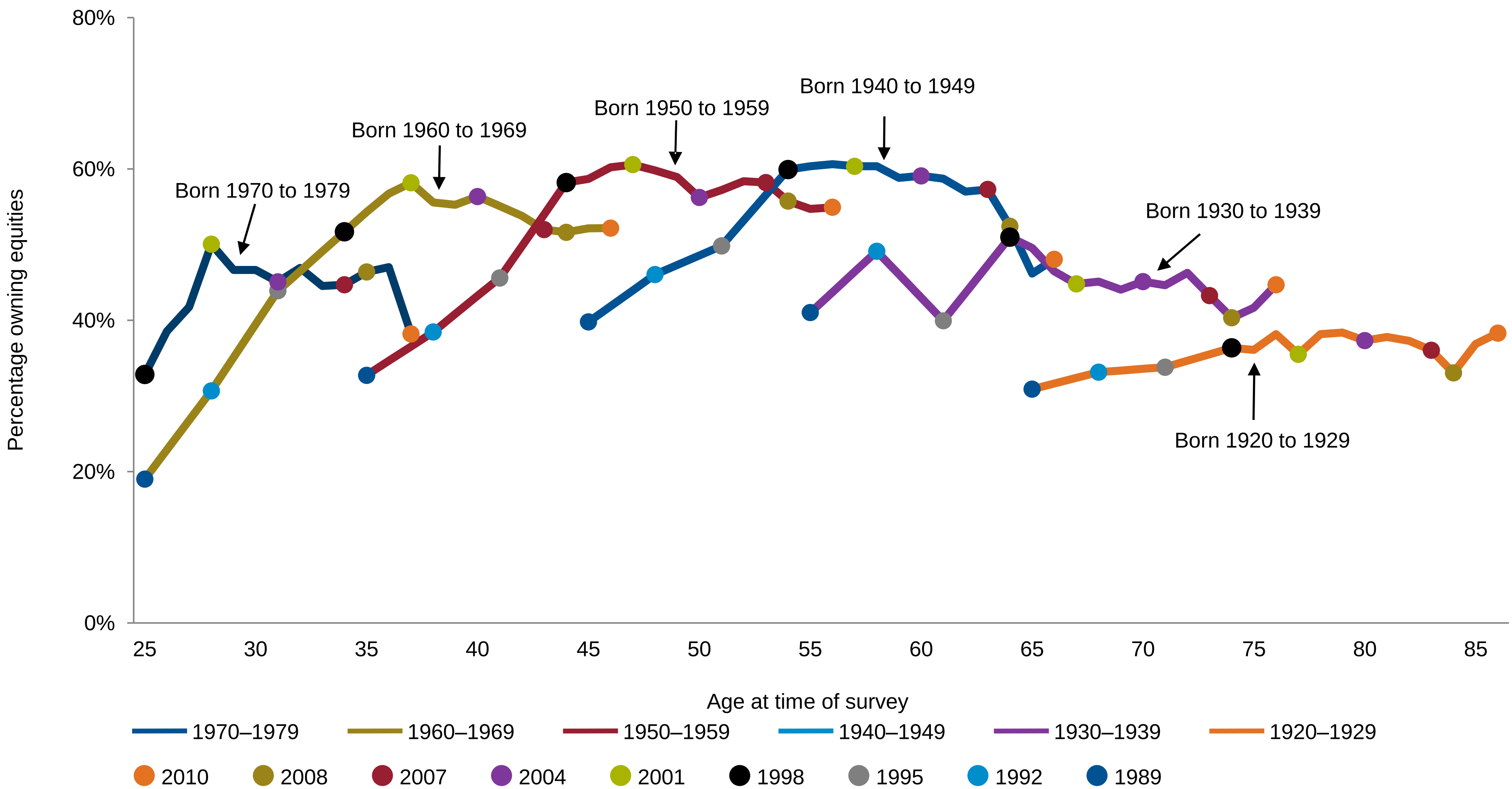
- Equity investing across the generations
- Key drivers of investor behavior
  - Prevailing market conditions
  - Engagement and inertia
  - Plan and investment menu design
- Implications for plan sponsors and providers

Investments in Target Retirement Funds and target-date funds are subject to the risks of their underlying funds. The year in the fund name refers to the approximate year (the target date) when an investor in the fund would retire and leave the workforce. The fund will gradually shift its emphasis from more aggressive investments to more conservative ones based on its target date. An investment in target-date funds is not guaranteed at any time, including on or after the target date.

Equity investing across the generations

Younger generation of investors less likely to own equities

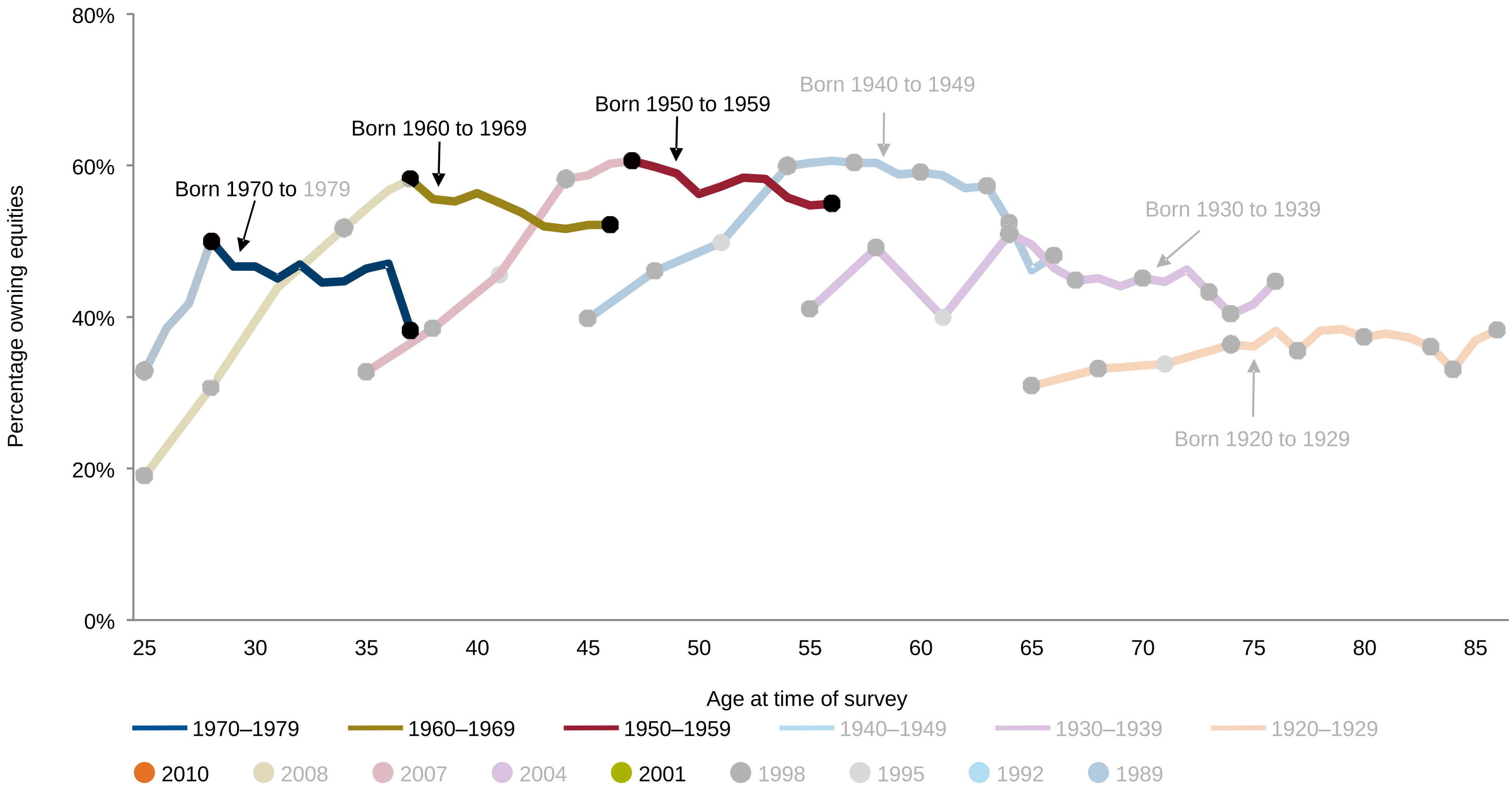
Percentage of U.S. households owning equities, ten-year birth cohorts, 1989 through 2010



Note: Equities include individual stocks, stock mutual funds, hybrid mutual funds, exchange-traded funds, and variable annuities.
Sources: ICI tabulations of Federal Reserve Board Survey of Consumer Finances and ICI Annual Mutual Fund Shareholder Tracking Surveys.

Younger generation of investors less likely to own equities

Percentage of U.S. households owning equities, ten-year birth cohorts, 1989 through 2010



Note: Equities include individual stocks, stock mutual funds, hybrid mutual funds, exchange-traded funds, and variable annuities.
Sources: ICI tabulations of Federal Reserve Board Survey of Consumer Finances and ICI Annual Mutual Fund Shareholder Tracking Surveys.

Risk appetite waning among Generation Y investors . . .

Generation Y investors more willing to take “average” risk, less willing to take “above-average” risk

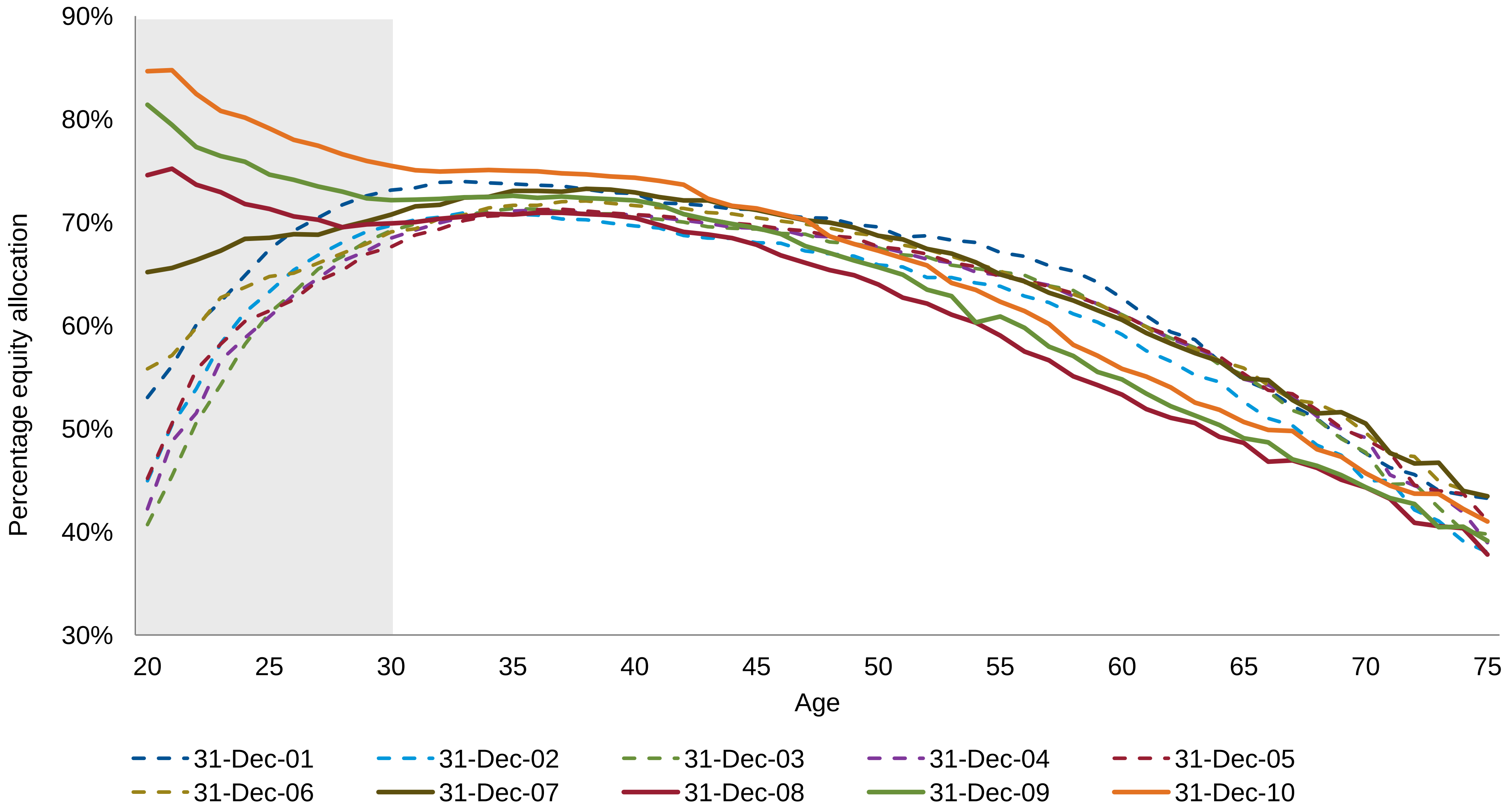
Percentage of U.S. households owning mutual funds by head of generation, 2010

Level of risk willing to take with financial investments	**Generation Y** (born between 1977 and 2001)	**Generation X** (born between 1965 and 1976)	**Baby boom generation** (born between 1946 and 1964)	**Silent and GI generations** (born between 1904 and 1945)
Substantial risk for substantial gain	7%	7%	4%	2%
Above-average risk for above-average gain	25	33	26	14
Average risk for average gain	48	43	51	53
Below-average risk for below-average gain	11	11	11	16
Unwilling to take any risk	9	6	8	15

Sources: Investment Company Institute, 2011; *Profile of Mutual Fund Shareholders, 2010*.

. . . yet there is a rise in equity allocations among younger DC plan participants

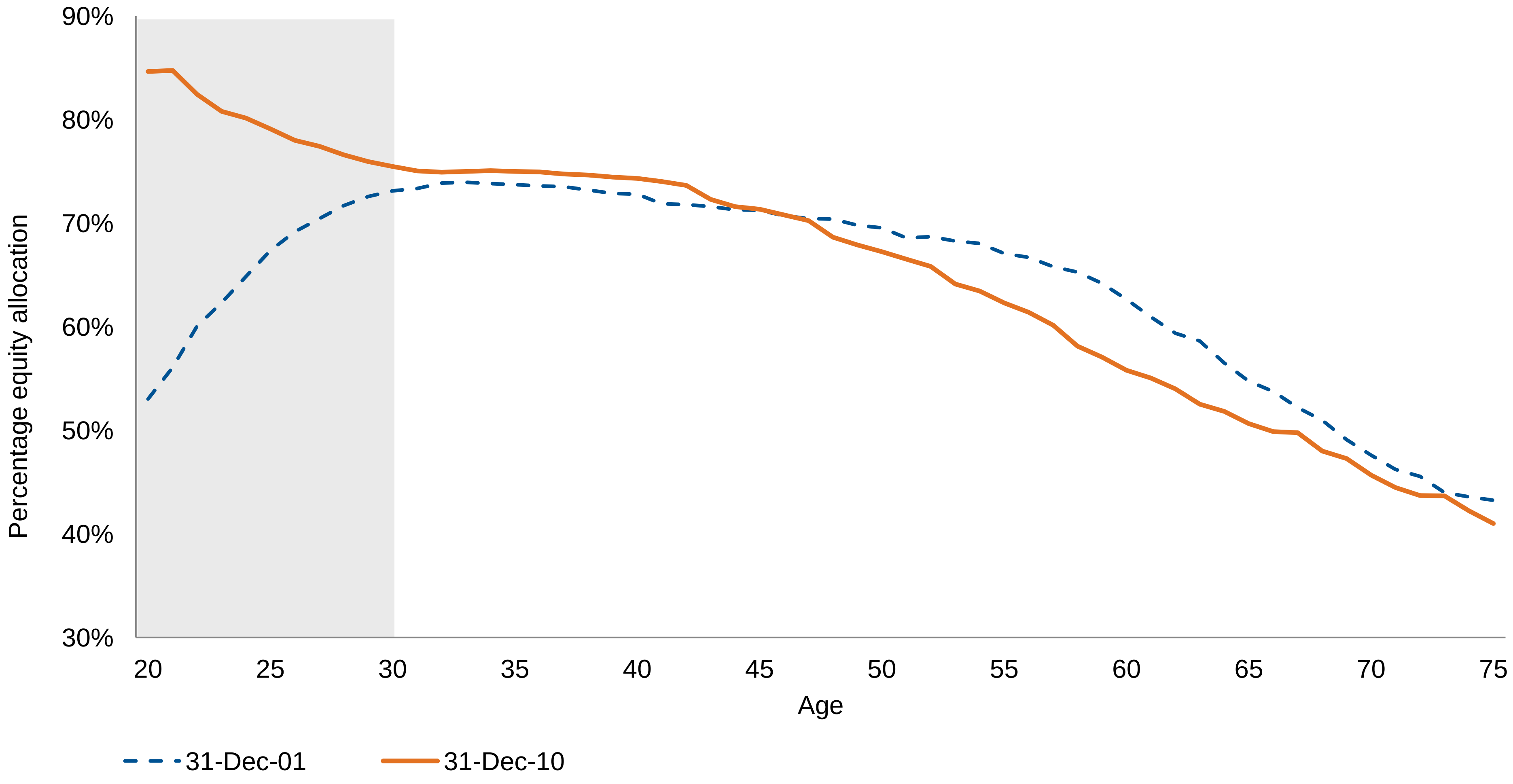
Average equity allocation in plan balance, by participant age and year



Note: Participant-weighted average fraction of year-end balance invested in equities, for those age 20–75 at year-end.
Source: Vanguard.

. . . yet there is a rise in equity allocations among younger DC plan participants

Average equity allocation in plan balance, by participant age and year

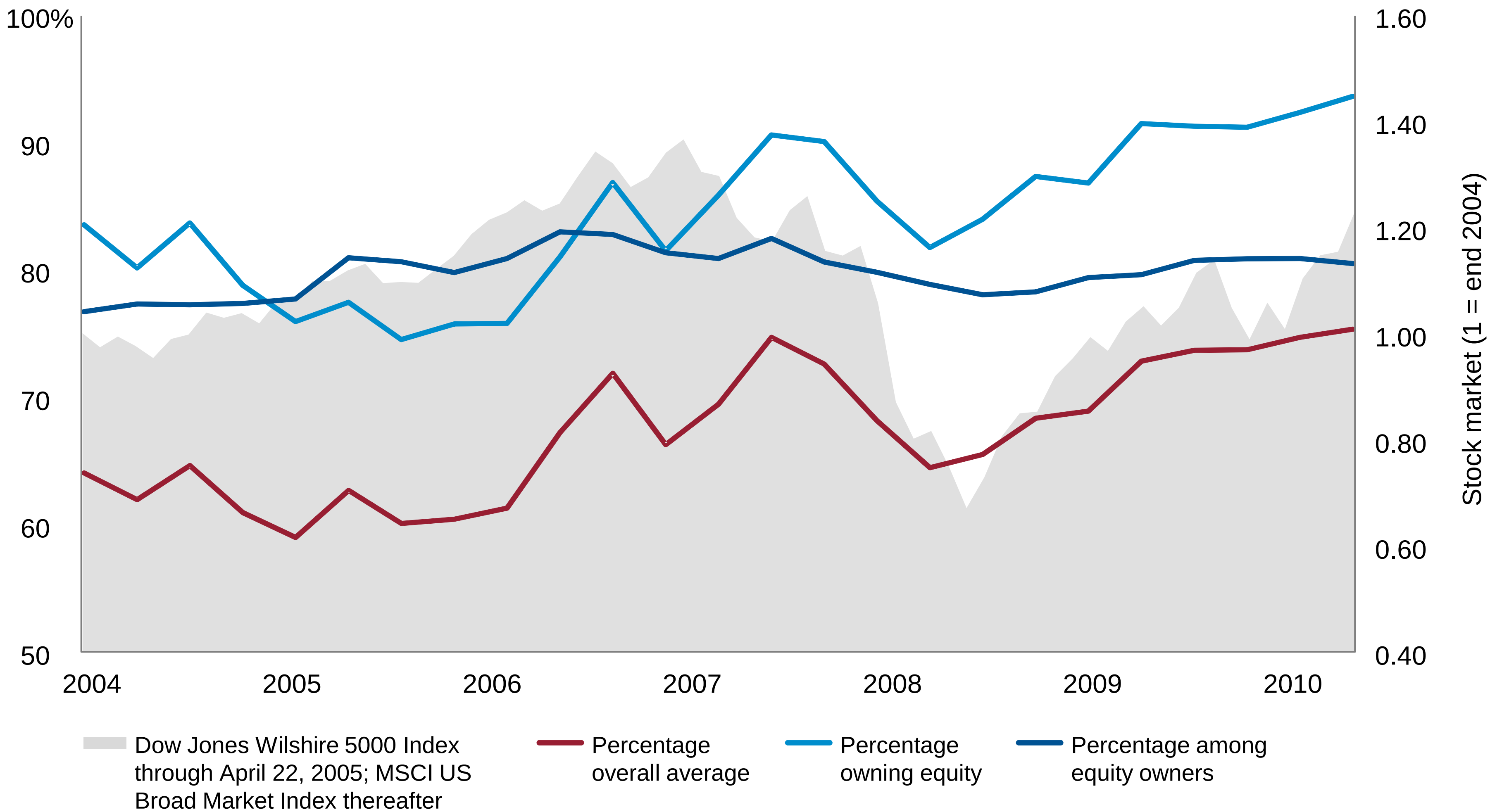


Note: Participant-weighted average fraction of year-end balance invested in equities, for those age 20–75 at year-end.
Source: Vanguard.

Key driver #1
Prevailing market conditions

Equity ownership drives the averages—
and rises and falls with the market

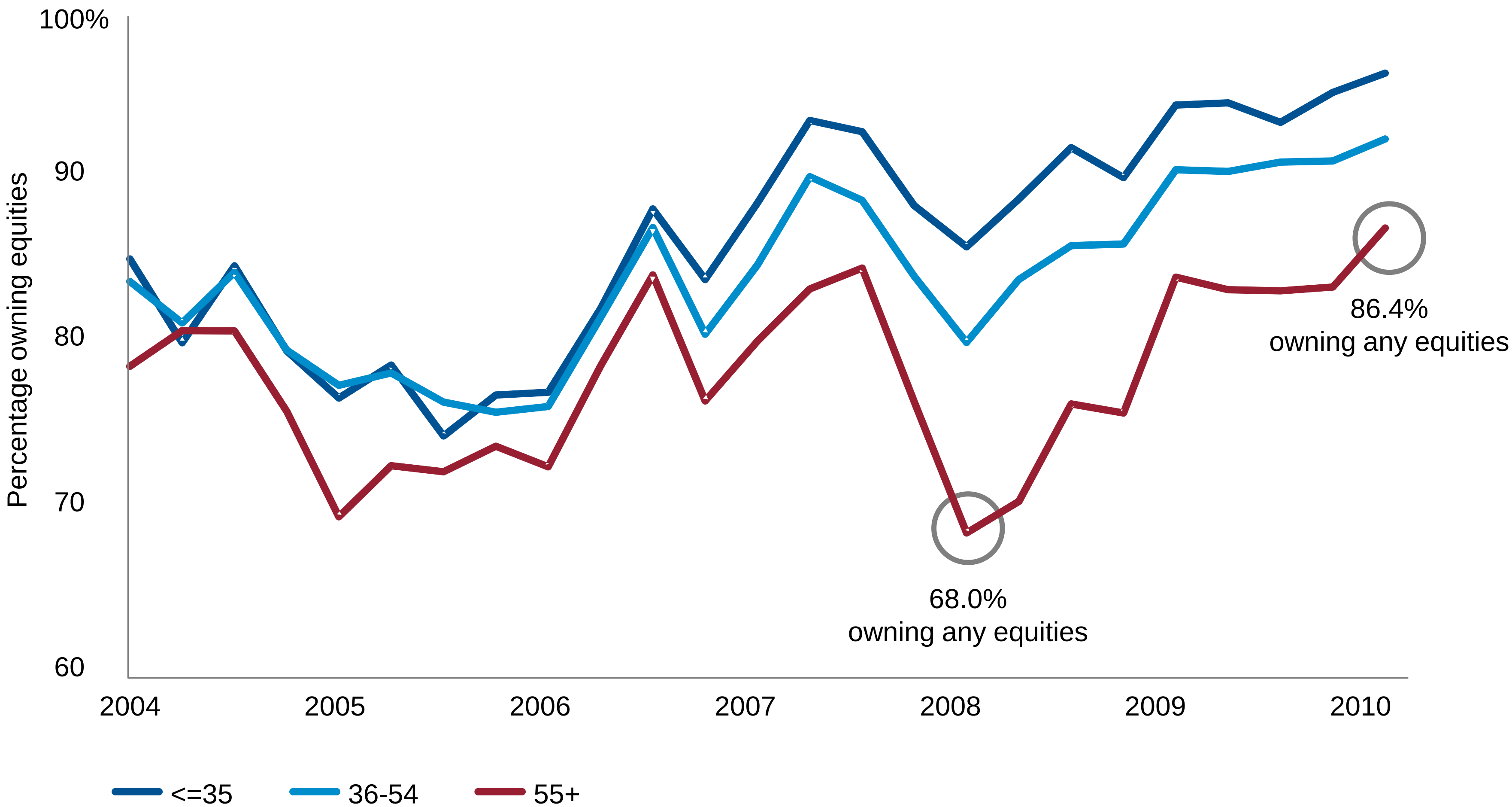
Equity exposure, new enrollees not using TDFs



Note: Includes only participants with plan-entry dates in the given quarter and in plans offering TDFs.
Source: Vanguard.

Older investors more sensitive to prevailing market conditions

Equity ownership by age and year, new enrollees not using TDFs



Note: Includes only participants with plan-entry dates in the given quarter and in plans offering TDFs.
Source: Vanguard.

Key driver #2
Engagement and inertia

The good news:
Overall trading activity and dollars are low

Plenty of evidence of inertia . . . even in 2009

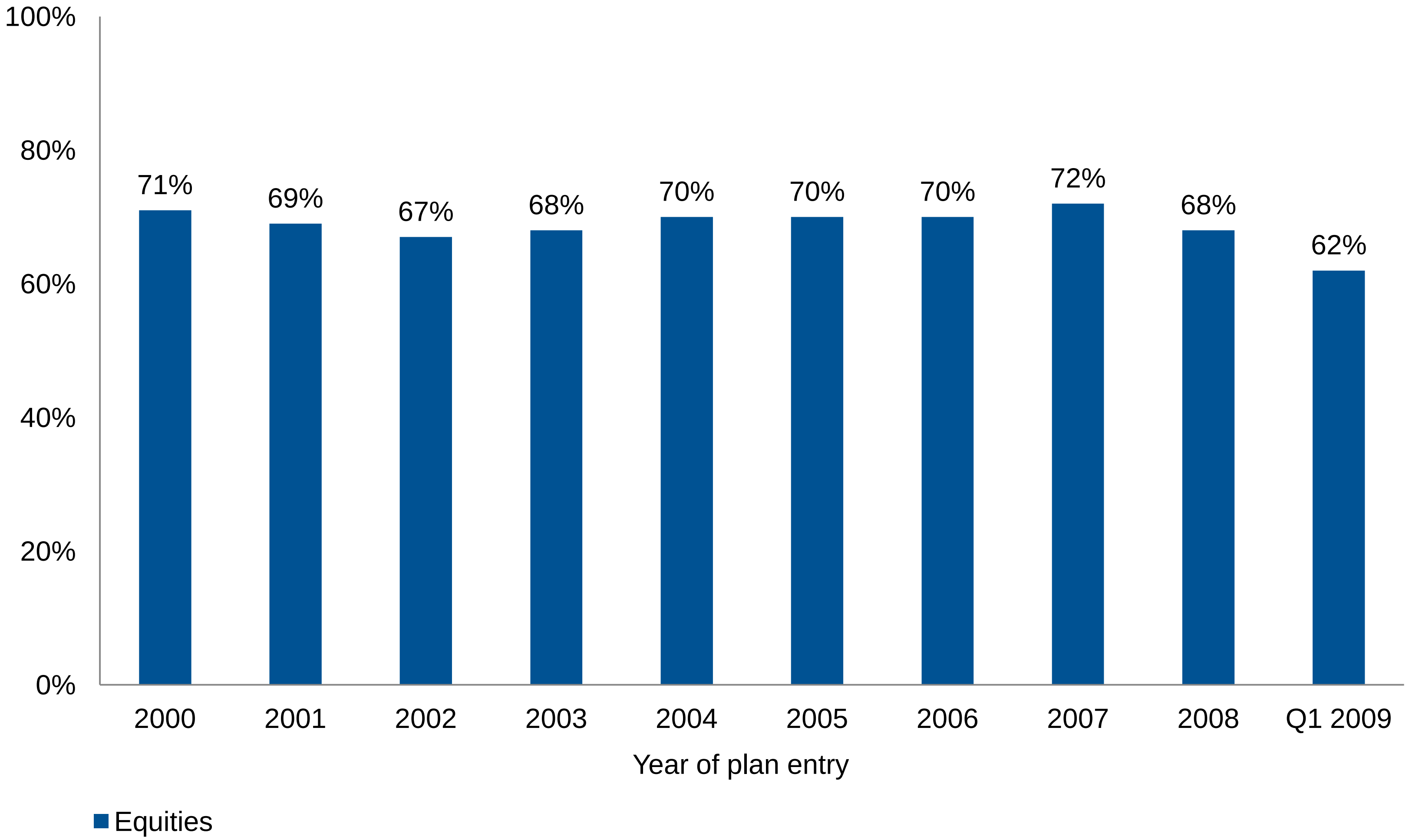
13% Percentage of participants who traded

14% Average percentage of recordkept assets traded

Source: Vanguard.

Lack of rebalancing creates a legacy effect

First quarter 2009 equity contribution allocation by plan entry date

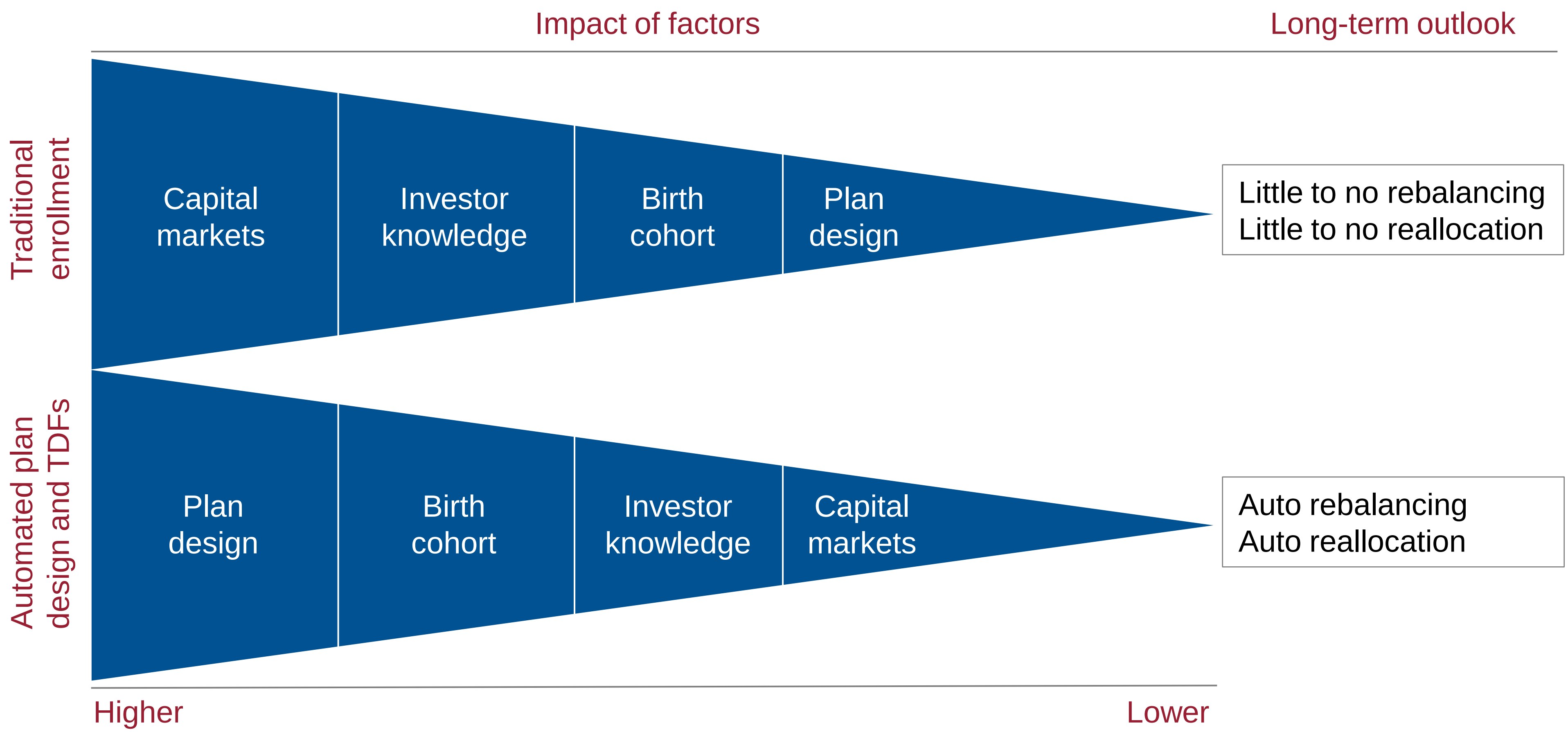


As of March 31, 2009. Vanguard-recordkept defined contribution participants.
Source: Vanguard.

Key driver #3
Plan and investment menu design

The impact of the automation age: Autoenrollment and TDFs

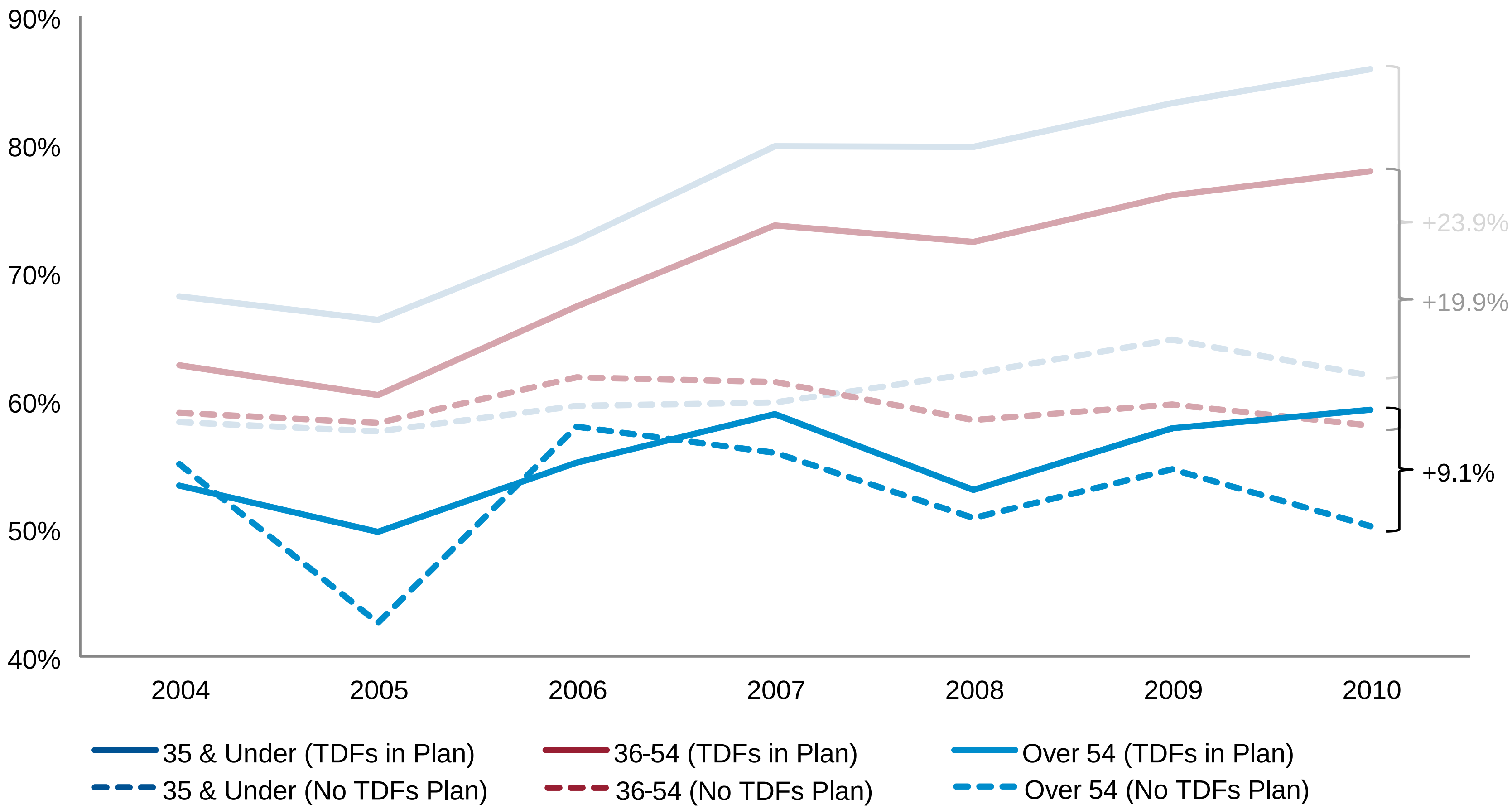
Impact of automation on asset allocation decisions at enrollment



Source: Vanguard.

The impact of automation and TDFs: Equity allocations higher among the younger

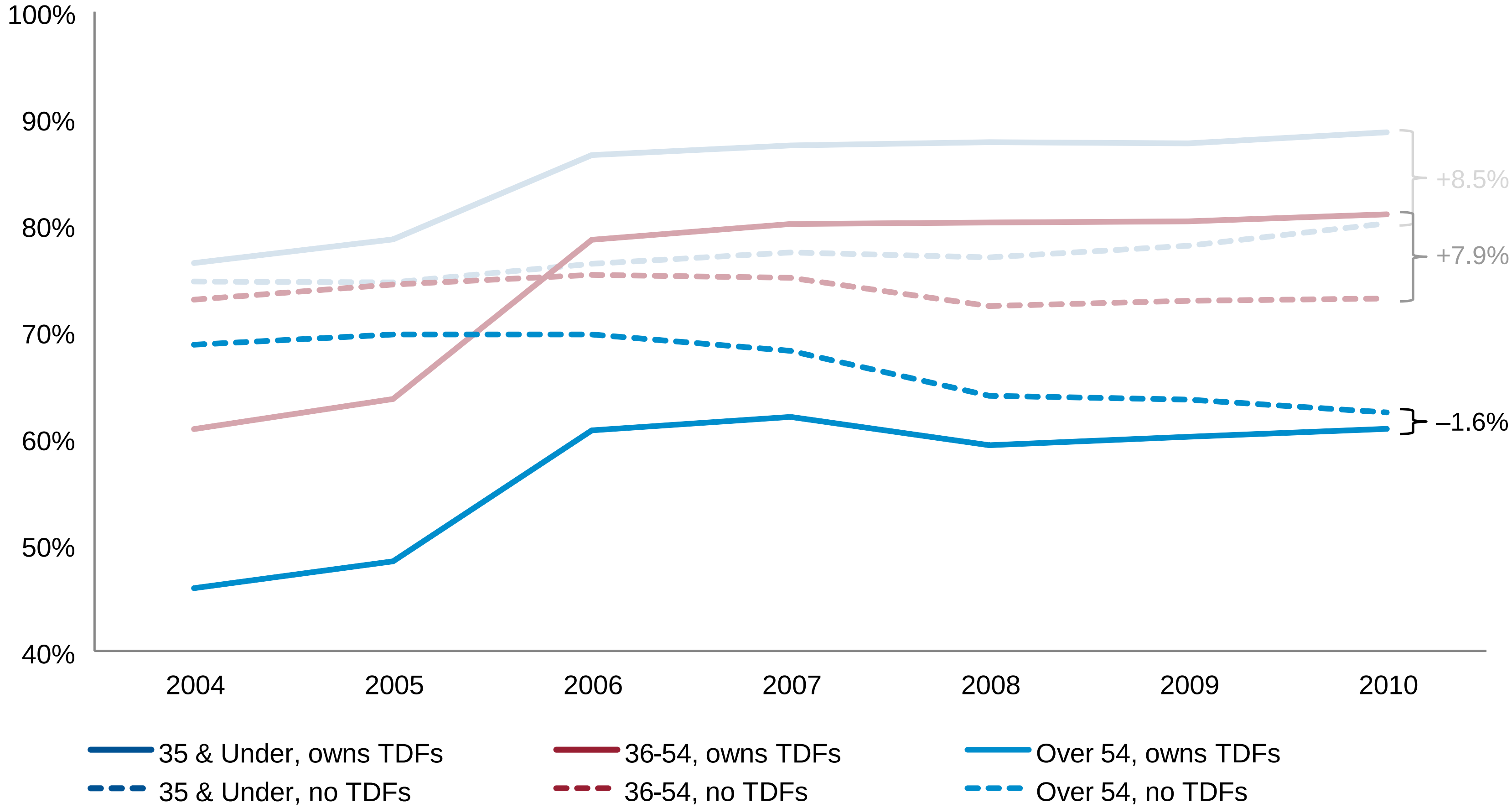
Average equity allocations, participants in plans with TDFs versus those without



Note: The significant rise in equity allocation in 2006 is partly explained by an increase in the equity allocations in Vanguard Target Retirement Funds.
Source: Vanguard.

The impact of automation and TDFs: Equity allocations higher among the younger

Average equity allocations, participants with equity, all plans; TDF owners versus nonowners



Source: Vanguard.

Implications for plan sponsors and providers

Major hurdles in retirement investing across the generations

Advances in plan and investment design doing the heavy lifting . . .

Getting into the plan	Autoenrollment
Boosting savings rates	Autoescalation
Choosing and maintaining a well-diversified portfolio	TDFs

Addressing the needs of the different generations

Younger: Less engaged, longer time horizon

- More exposure to automation
- Accustomed to plan sponsor action
- Amenable to automation and plan sponsor action

- Keep them informed
- Autoenrollment
- Autoescalation

Older: More engaged, compressed time horizon

- Less exposure to automation
- Accustomed to “do it yourself”/traditional education
- Amenable to automation and plan sponsor action

- Personalized advice
- Reenrollment

Key takeaways

- No “lost generation” in 401(k) plans
- Autoenrollment and TDFs have transformed the 401(k) landscape
- More work to be done to address the needs of generations

Disclosures

For more information about Vanguard funds, visit institutional.vanguard.com or call 800-523-1036 to obtain a prospectus. Investment objectives, risks, charges, expenses, and other important information about a fund are contained in the prospectus; read and consider it carefully before investing.

All investing is subject to risk.

Investments in bond funds are subject to interest rate, credit, and inflation risk.

Diversification does not ensure a profit or protect against a loss in a declining market.

Vanguard’s defined contribution recordkeeping system includes 3.2 million unique participants, 3.5 million accounts, and 2,200 DC plans.

institutional.vanguard.com/generations