Previewing

How America Saves 2025

VIEWPOINTS

Improved plan designs, automatic solutions continue to benefit participants

Participant outcomes remained strong in 2024, as plan sponsors continued to implement automatic solutions and leverage human inertia to influence decision-making. This is just one of the trends that will be chronicled in *How America Saves 2025*, the 24th edition of our annual analysis of retirement saving behavior. The full report will be available in June.

Our initial data highlights that participants generally remained resilient through 2024. While there were a few signals of a possible uptick in financial stress, overall, participants' retirement plan behavior remained in line with previous years, and most continued to maintain a long-term view. Growing adoption of automatic enrollment and improvement in plan designs over the last two decades has helped increase employee savings.

In addition, the use of professionally managed allocations has dramatically improved participants' age-appropriate equity exposure. From both a savings and investment perspective, thoughtful plan designs and automatic solutions have improved participant outcomes.

What follows is a preview of *How America Saves 2025*—an examination of retirement plan data from nearly 5 million defined contribution (DC) plan participants across Vanguard's recordkeeping business. It highlights trends documented over the past 20 years and how these trends continued in 2024. We believe our findings can help plan sponsors continue to optimize their plan design.

2024 in perspective

There were several notable economic trends in 2024, as the U.S. economy remained strong with real GDP growth, inflation continued to moderate toward the Federal Reserve target rate, unemployment remained low, and real earnings increased. Strong consumer spending followed. However, while the Federal Reserve began to lower the federal funds rate during the second half of the year, mortgage rates remained elevated, and household debt continued to rise. Meanwhile, the S&P 500 ended with a robust gain of 25%, while the U.S. bond market saw a modest gain of 1%. Despite all that, our initial metrics reveal that participant retirement plan behaviors remained largely unaffected.

Account balance averages increased by 10%, driven primarily by positive market performance. Forty-five percent of participants increased their deferral rate (either on their own or as part of an automatic annual increase), an all-time high since we started tracking this metric in 2019.

45%

of participants raised their deferral rate

The proportion of participants in professionally managed allocations remained strong, reaching an all-time high of 67%. And only 5% of nonadvised participants traded, in line with the record low in 2023.

Loan issuances were consistent with 2023 and remained below pre-pandemic levels. While hardship withdrawals increased in 2024, it's important to note that less than 5% of the participant population took one. This data underscores that participants are generally resilient and maintain a long-term approach to retirement saving.

A deeper dive into the data

Plan design

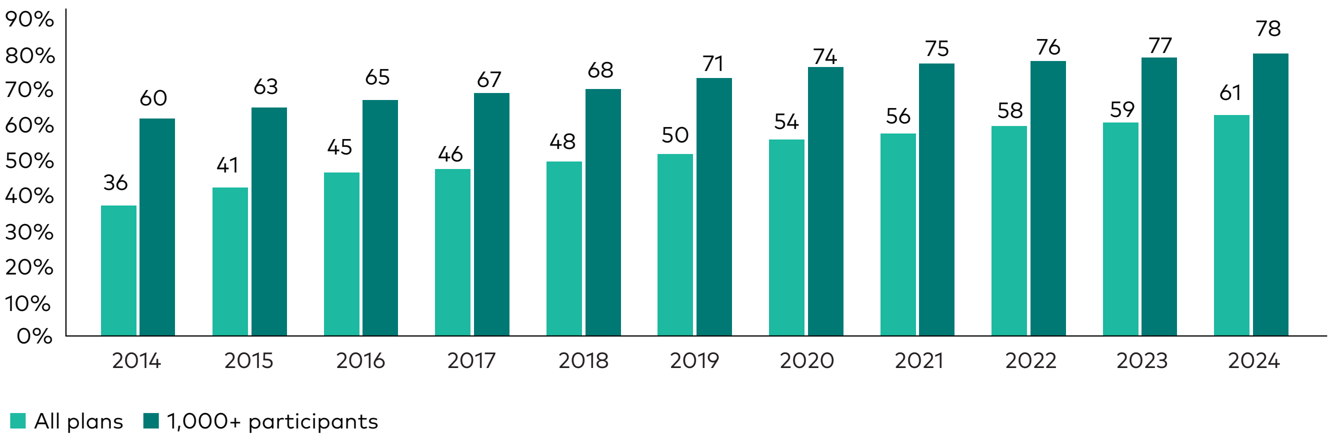
As of year-end 2024, 61% of Vanguard plans permitting employee-elective deferrals had adopted automatic enrollment. Larger plans (at least 1,000 participants) were more likely to implement automatic enrollment, with 78% using the design. These metrics are all-time highs and underscore the continued momentum of plan sponsors turning to automatic enrollment.

In addition, plan designs continued to improve. Sixty-one percent of plans with automatic enrollment defaulted their employees into the plan at a rate of 4% or higher, a trend that has increased every year.

And nearly 7 in 10 plans with automatic enrollment had an annual escalation feature that increased their deferral percentage. Previous Vanguard research found that participants enrolled in a plan with automatic enrollment and automatic annual increases save, on average, 20% to 30% more after three years than participants in an automatic enrollment plan that doesn't use automatic annual increases.[1]

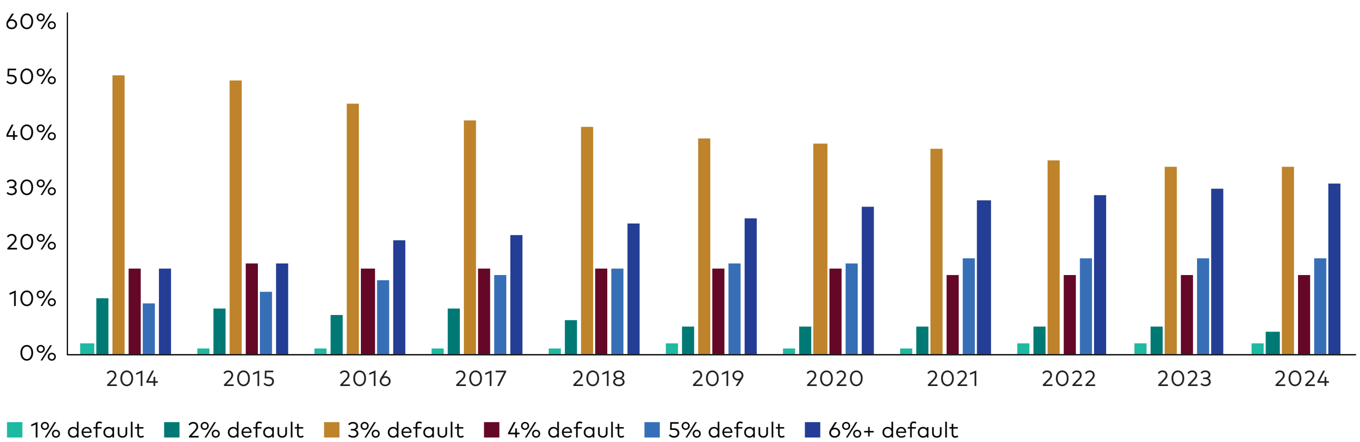
[1] Vanguard. *How Americans Can Save More for Retirement*, 2023.

Automatic enrollment adoption
(percentage of plans)



Source: Vanguard 2025.

Automatic enrollment default rates
(percentage of automatic enrollment plans)



Source: Vanguard 2025.

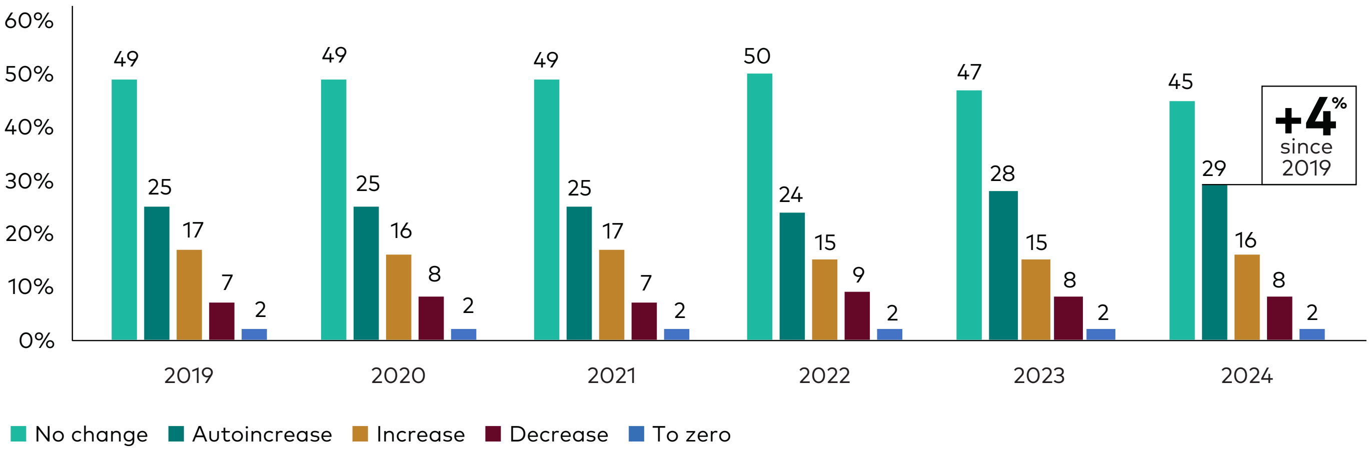
Account balances

Account balances are widely accessible on statements and websites and are often cited as participants' primary tool for monitoring investment results. As equity markets increased in 2024, average participant account balances increased by 10% from year-end 2023 and reached an all-time high. The average participant account balance was $148,153 as of year-end 2024. The median balance was $38,176, an 8% increase since year-end 2023.

Contributions

In typical DC plans, employees are the primary source of funding. Therefore, how participants manage their payroll deferral percentages significantly affects their retirement savings. During 2024, 16% of participants increased their payroll deferral percentage, while 8% decreased it. An additional 29% of participants had their deferral percentage increased from an annual automatic escalation, leading to 45% of participants increasing their savings, the highest percentage that we have tracked in the 25 years of *How America Saves*.

Trend in elected deferral changes
(percentage of participants)



Source: Vanguard 2025.

Allocations

The percentage of participant assets invested in equities as of year-end 2024 stood at 75%, up slightly from year-end 2023.

Seventy-nine percent of plan contribution dollars were invested in equities during 2024, in line with 2023. And nearly 2 of 3 dollars contributed were invested in target-date funds (TDFs). As of year-end 2024, 78% of participants had a balanced portfolio, up from 69% a decade ago. This was reflected in diversified equity investment of between 40% and 90% and allocation to company stock of less than 20%.

Professionally managed allocations and portfolio construction

Underlying the improvements in participant investment allocations is the rising prominence of professionally managed allocations. Participants with professionally managed allocations have their entire account balance invested either in a single target-date, target-risk, or traditional balanced fund or in a managed account advisory service. As of year-end 2024, nearly all participants had access to target-date funds, and nearly 80% had access to managed account advice services.

Sixty-seven percent of Vanguard participants were invested in a professionally managed allocation, up from 66% as of year-end 2023.

Overall, the percentage of participants using a professionally managed allocation has increased by more than 50% over the past 10 years.

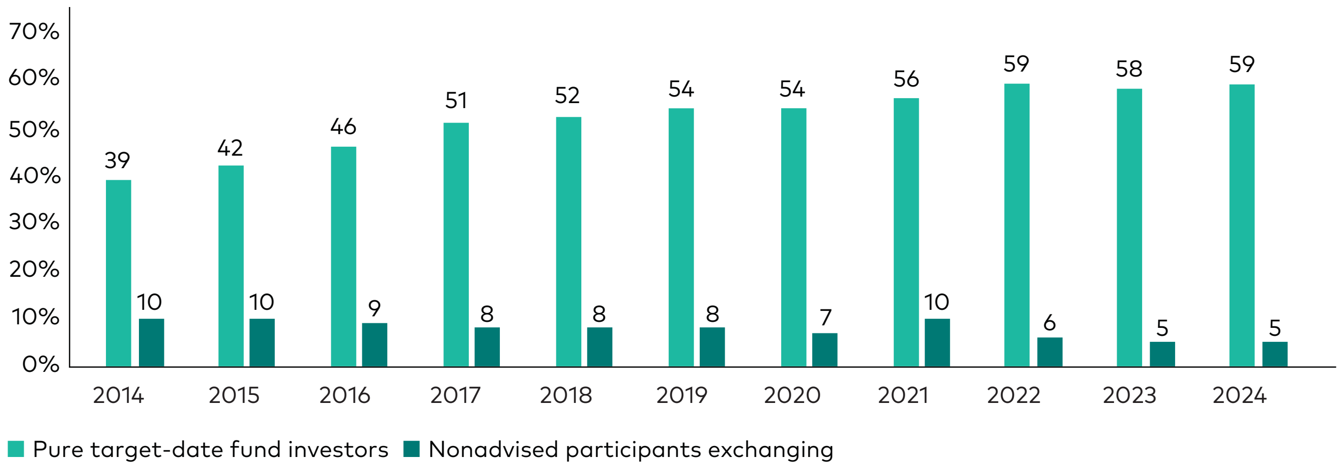
of participants were invested in a professionally managed allocation

Exchanges

Participant trading, or exchange activity, is the movement of existing account assets from one plan investment option to another. Excluding those in a managed account program, only 5% of participants initiated an exchange in 2024, a rate that was in line with the all-time low in 2023.

Additionally, participants who are pure TDF investors not only benefit from age-appropriate equity allocations and continuous rebalancing but also are far less likely to trade than other investors. Typically, pure target-date investors are four to five times less likely to trade than other investors. In 2024, only 1% of pure target-date fund investors made an exchange, a rate significantly lower than that of other investors.

Pure target-date investors and exchanges
(percentage of participants)



Source: Vanguard 2025.

Access to plan assets

Before retirement, plan participants may be able to access their retirement savings in a number of ways. Some active participants can borrow from their account balance and may have the option of in-service withdrawals.

Thirteen percent of participants had a loan outstanding at year-end 2024, in line with 2023. Overall, hardship withdrawal activity increased in 2024, with 4.8% of participants initiating a hardship withdrawal, up from 3.6% in 2023.

Given that it's now easier to request a hardship withdrawal and that automatic enrollment is helping more workers save for retirement, especially lower-income workers, a modest increase isn't surprising. And for a small subset of workers facing financial stress, hardship withdrawals may serve as a safety net that otherwise may not have been available without plan-implemented automatic solutions.

A continued need for financial well-being

Despite the progress, opportunities for improvement remain. Plan sponsors not yet using an automatic enrollment design should consider it. And for plans with the feature, how quickly is it designed to get participants to a 12%–15% total saving rate on its own?

Smart plan design features—such as automatic enrollment with automatic increases, high employee default rates, and competitive employer contributions—can remove barriers to saving for retirement and help workers improve their retirement readiness.

Additionally, employees have many competing financial priorities, and retirement savings is just one of them. Student loans, health care savings, credit card debt, and emergency savings goals, to name just a few, can be daunting and complex for many workers. Plan sponsors can help support their employees with a cost-efficient, high-quality advice offer as well as a platform that provides guidance on their financial well-being—two valuable services that meet participants wherever they are on their financial journey and help provide personalized solutions for their goals.

We hope this *How America Saves 2025* preview helps plan sponsors better prepare their participants for retirement.

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Investments in 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.

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