Research

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How Americans use professionally managed allocations

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The use of professionally managed allocations in defined contribution (DC) plans has grown significantly over the last 10 years.

Sixty-six percent of Vanguard participants in DC plans had a professionally managed allocation at year-end 2022, up from 40% at year-end 2013. Fifty-nine percent were invested in a single target-date fund and 7% in a managed account service, with less than 1% in a single balanced fund.

This increased use of professionally managed investment portfolios has been accompanied by improved participant behaviors and outcomes that include:

- Better age-based equity allocations.
- Higher engagement and saving rates for advised participants.
- A tendency among single target-date fund holders to stay the course when saving, influenced by plan design (automatic increase) and inertia.

What follows is an examination of these and other trends as they relate to professionally managed allocations—among the many developments chronicled in *How America Saves*, our annual analysis of retirement saving behavior that enters a third decade of industry coverage with its 22nd edition in June.

66%

of Vanguard participants in DC plans had a professionally managed allocation

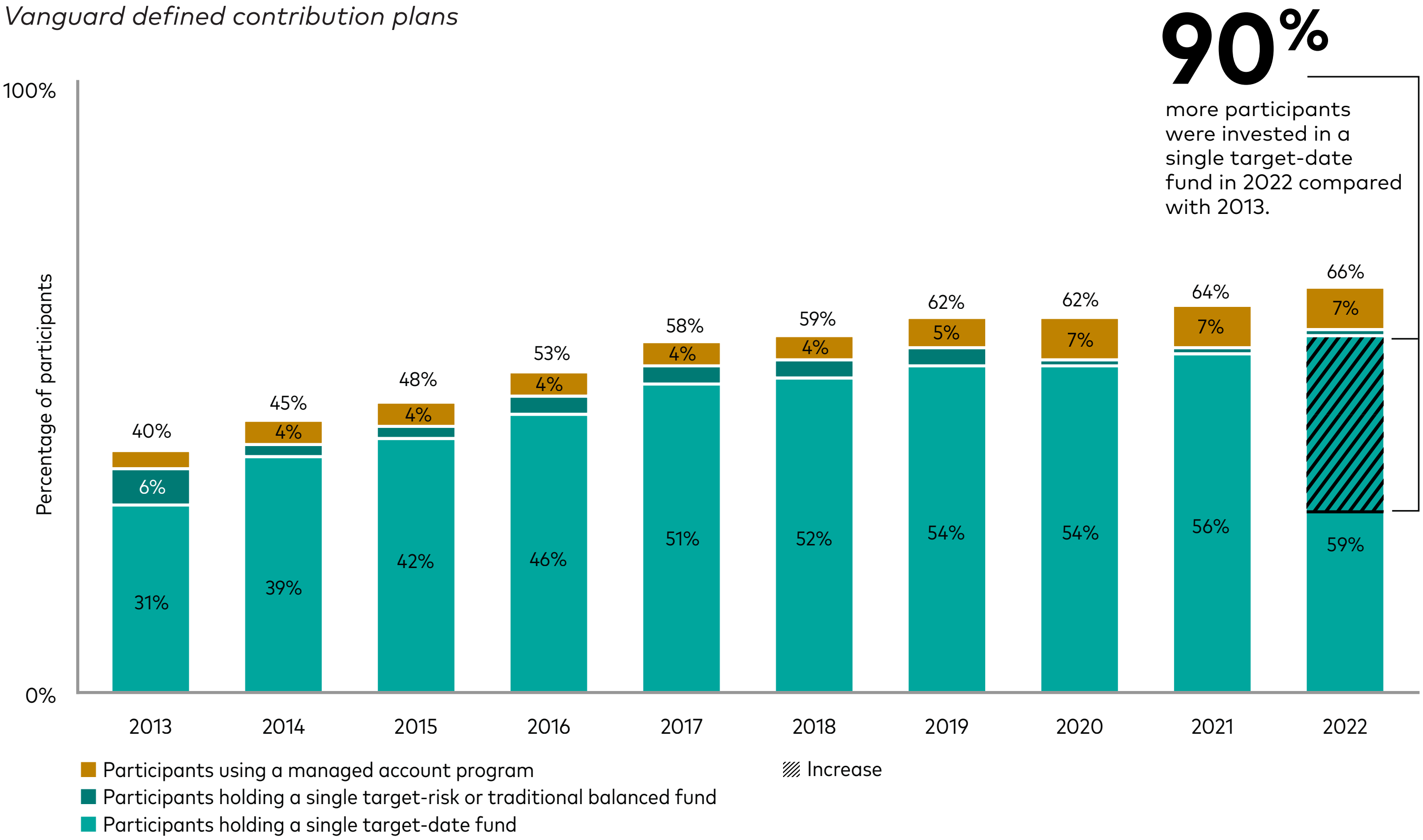
Introduction

The increasing use of professionally managed allocations signals a shift in responsibility for investment decision-making away from the participant and toward employer-selected investment and advice programs. Participants with professionally managed allocations have their entire account balance invested in a single target-date or balanced fund or in a managed account advisory service.

At year-end 2022, 66% of Vanguard participants were invested in a professionally managed allocation **(Figure 1)**.

Figure 1. Participants with professionally managed allocations

Vanguard defined contribution plans



Source: Vanguard, 2023.

Driving this development is the growing use of target-date funds and managed accounts. Fifty-nine percent of participants were invested in a single target-date fund in 2022, nearly twice as many as in 2013. In addition, the percentage of participants in a managed account has more than doubled during this period.

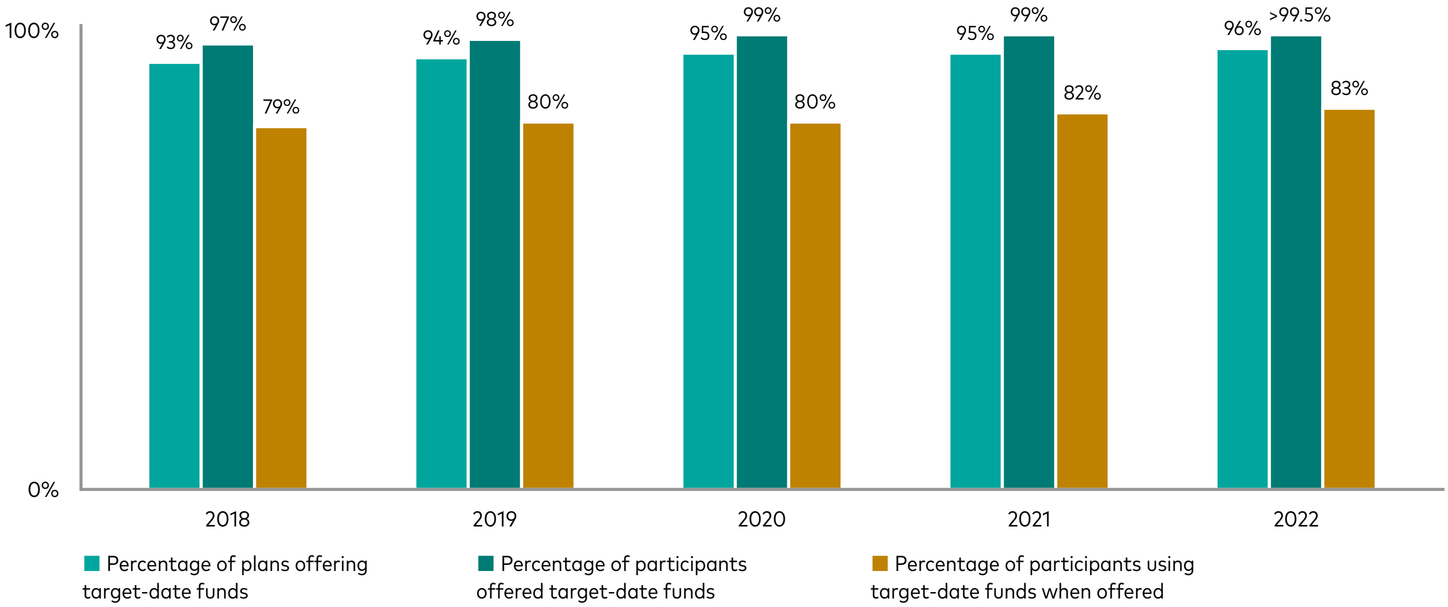
This shift has contributed to improved participant behaviors and outcomes—progress that will likely continue to drive the use of professionally managed allocations.

Target-date funds

Target-date funds base portfolio allocations on an expected retirement date; allocations grow more conservative as the participant approaches the fund's target year. The percentage of plans offering target-date funds grew to 96% in 2022 **(Figure 2)**. Nearly all Vanguard participants (99%) were in plans offering target-date funds, and 83% of those participants invested at least a portion of their assets in them.

Figure 2. Target-date fund offerings and use

Vanguard defined contribution plans



Source: Vanguard, 2023.

We characterize participants who invest in target-date funds in one of two ways: "Pure investors" are those who invest 100% of their assets in a single target-date fund. They accounted for 71% of all target-date investors in 2022. Seven in 10 of these investors joined their plan under automatic enrollment and were usually enrolled in a single fund by default. About 3 in 10 voluntarily enrolled, most of them actively choosing a single target-date fund.

The remaining target-date participants are "mixed investors." They hold a target-date fund in combination with other investments or hold multiple target-date funds. In 2022, 29% of all target-date investors were in this category. They appear very much like non-target-date investors in terms of their demographic and portfolio characteristics.

Participants who are single target-date fund investors not only benefit from continuous rebalancing but also are far less likely to trade compared with other investors. In 2022, only 2% of all pure target-date fund investors made an exchange, a rate five times lower than that of other investors (excluding managed account participants).

Managed account services

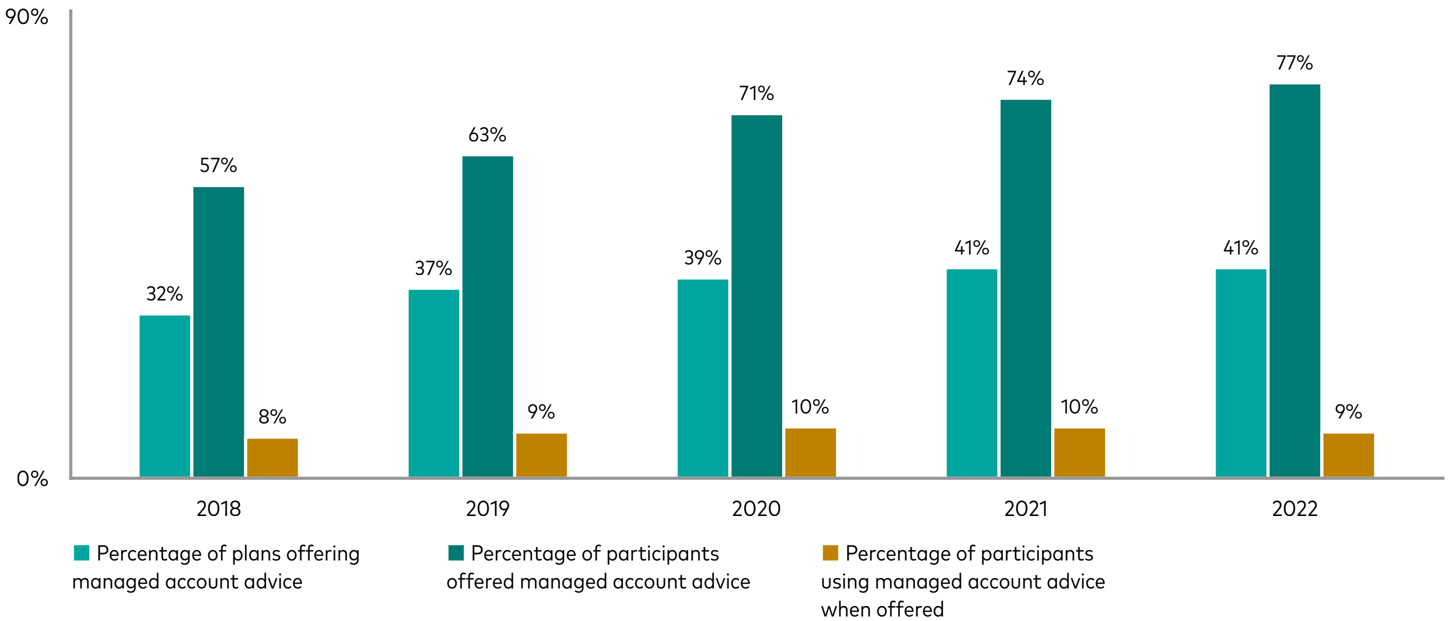
To address participants' needs for assistance with investment and planning decisions, plan sponsors using Vanguard as their recordkeeper offer a range of advice programs. The Vanguard Personalized Advice and Guidance suite consists of two offers: Advice from Vanguard and Advice powered by Edelman Financial Engines, a third-party advisor.

Forty-one percent of Vanguard DC plans offered managed account advice in 2022, and more than 8 in 10 larger plans offered the service. As larger plans are more likely to offer advice, 77% of participants had access to the service **(Figure 3)**.

Supporting participants in creating holistic financial well-being has become a priority for plan sponsors and has led to increased availability of managed account advice. Over the past five years, the percentage of plans offering a managed account program has grown by nearly 30%, and, in turn, the percentage of participants offered the service has grown by a similar amount.

Figure 3. Advice-offered

Vanguard defined contribution plans



Source: Vanguard, 2023.

Professionally managed allocations by demographics

There were distinct differences between participants with professionally managed allocations and those without them in 2022, as well as distinctions among participants with each of the three types of managed allocations **(Figure 4)**. Participants who constructed their own portfolios tended to be older and longer tenured with higher average and median balances in 2022. Single target-date fund investors were shorter tenured with lower account balances and were more likely to be in an automatic enrollment plan and to have been defaulted into the fund. In contrast, managed account investors were older, longer tenured, and had higher balances than single target-date fund investors.

The percentage of participants with a professionally managed allocation varied by participant demographics. Younger and less tenured participants were more likely to be single target-date fund investors. Higher-paid participants with higher balances tended to use managed account programs more often. However, use of the strategy was not concentrated in certain demographic segments, highlighting the value managed accounts can provide to various cohorts of participants.

Participants in automatic enrollment plans were more likely to have a professionally managed allocation compared with those in voluntary arrangements because 98% of automatic enrollment plans defaulted participants into target-date funds.

Figure 4. Demographic characteristics of participants with professionally managed allocations, 2022
Vanguard defined contribution plans

	Professionally managed allocations				
	Single target-date fund participants	Single balanced fund participants	Managed account participants	All other participants	All participants
Percentage of participants	59%	<1%	7%	34%	100%
Percentage male	54%	62%	57%	60%	56%
Median age	39	49	49	50	43
Median tenure	4	13	11	14	7
Average account balance	$45,386	$110,556	$158,321	$219,044	$112,572
Median account balance	$11,780	$37,403	$72,509	$91,459	$27,376

Source: Vanguard, 2023.

Participant engagement

In 2022, 60% of participants contacted Vanguard through a variety of services, including the website, mobile applications, telephone associates, and the voice-response system **(Figure 5)**. About one-third of participants contacted Vanguard intermittently (between one and six times), while another one-third reached out frequently (seven times or more).

Participants in managed account programs were most likely to contact Vanguard and typically did so frequently, with 38% of them engaging with Vanguard more than once a month. Meanwhile, single target-date fund investors were less likely than managed account and do-it-yourself participants to access their accounts.

Figure 5. Participant engagement, 2022

Vanguard defined contribution plans

		Professionally managed allocations				
		Single target-date fund participants	Single balanced fund participants	Managed account participants	All other participants	All participants
Percentage web registered		70%	69%	98%	90%	79%
Percentage contacting Vanguard		51%	44%	85%	70%	60%
Number of contacts per year	No contact	49%	56%	15%	30%	40%
	1 contact	9%	9%	7%	9%	9%
	2–3 contacts	11%	10%	11%	12%	11%
	4–6 contacts	9%	7%	12%	11%	10%
	7–12 contacts	9%	7%	16%	12%	10%
	13–24 contacts	6%	5%	15%	10%	9%
	25+ contacts	7%	6%	24%	16%	11%
Percentage contacting Vanguard via ...	Website	33%	29%	59%	52%	41%
	Mobile	25%	18%	51%	32%	29%
	Voice-response unit	7%	6%	11%	8%	7%
	Telephone associate	11%	9%	21%	14%	13%

Source: Vanguard, 2023.

Participant saving behaviors

Elected deferral percentages are the saving rates that participants defer from their salary. On average, participants elected to defer 9% of their pay in 2022 **(Figure 6)**. Participants in managed account programs saved at strong levels, similar to the do-it-yourself investors. Single target-date fund investors saved at lower levels, in part because these participants were younger, with shorter tenure. Fifteen percent of all participants contributed to Roth accounts, and managed account investors were twice as likely as single target-date fund investors to contribute to these accounts.

When examining changes to deferral percentages throughout 2022, one-half of participants made some change, whether they increased or decreased their saving. Managed account participants were most likely to initiate a change in deferral percentages and were also the most likely to increase their saving rate on their own. On the other hand, single target-date fund investors were the most likely to have their deferral percentage increased through an automatic escalation program.

Figure 6. Participant saving behaviors, 2022
Vanguard defined contribution plans

		Professionally managed allocations				
		Single target-date fund participants	**Single balanced fund participants**	**Managed account participants**	**All other participants**	**All participants**
Average elected deferral percentage		8%	9%	11%	12%	9%
Median elected deferral percentage		6%	6%	10%	10%	6%
Percentage contributing to Roth accounts		11%	13%	23%	22%	15%
Deferral changes	**No change**	48%	68%	43%	54%	50%
	Automatic escalation increase	29%	13%	21%	18%	24%
	Increase	13%	11%	19%	15%	15%
	Decrease	7%	6%	15%	11%	9%
	To zero	2%	1%	3%	2%	2%

Source: Vanguard, 2023.

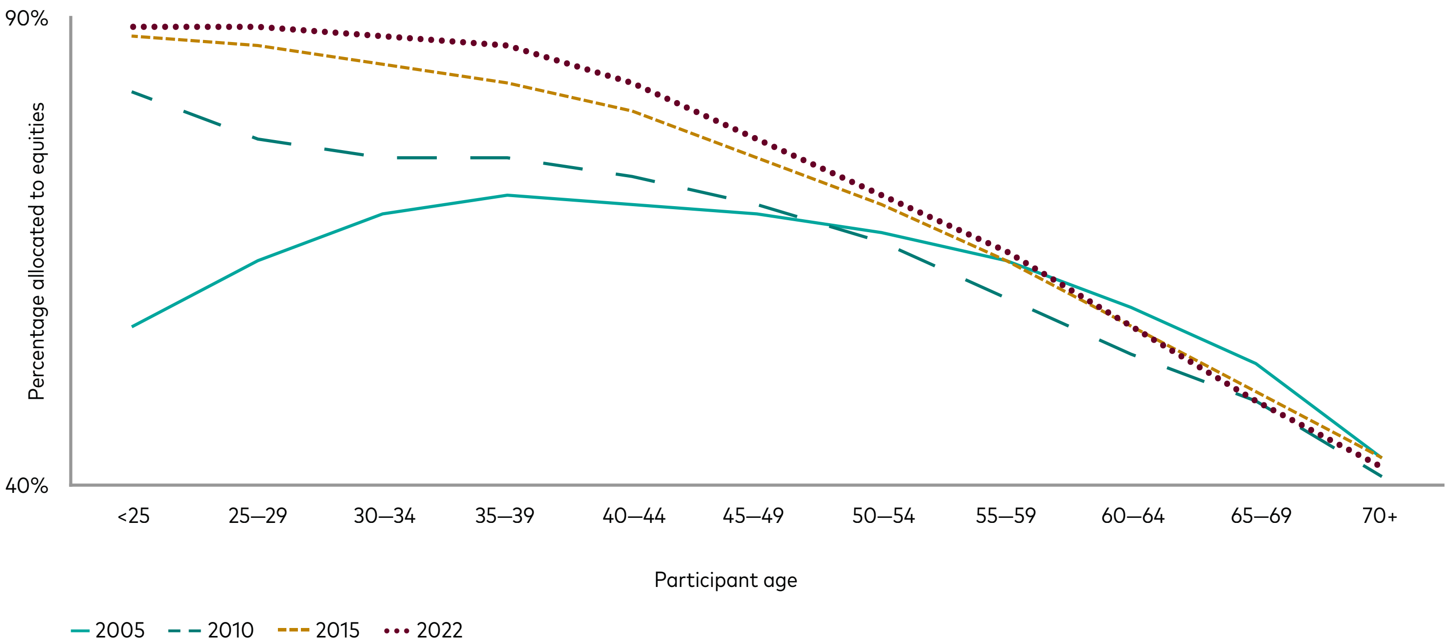
Equity allocations by age

In 2005, participants' age-based equity allocation was hump shaped, with younger participants adopting more conservative allocations, middle-aged participants holding the highest equity exposure, and older participants having equity exposure on par with younger participants **(Figure 7)**. In 2022, the equity allocation among Vanguard DC participants was downward sloping by age. This is tied directly to the growing use of professionally managed allocations, which typically provide a declining equity exposure with age.

Figure 7. Asset allocation by participant age

Vanguard defined contribution plans

Average equity allocation participant weighted

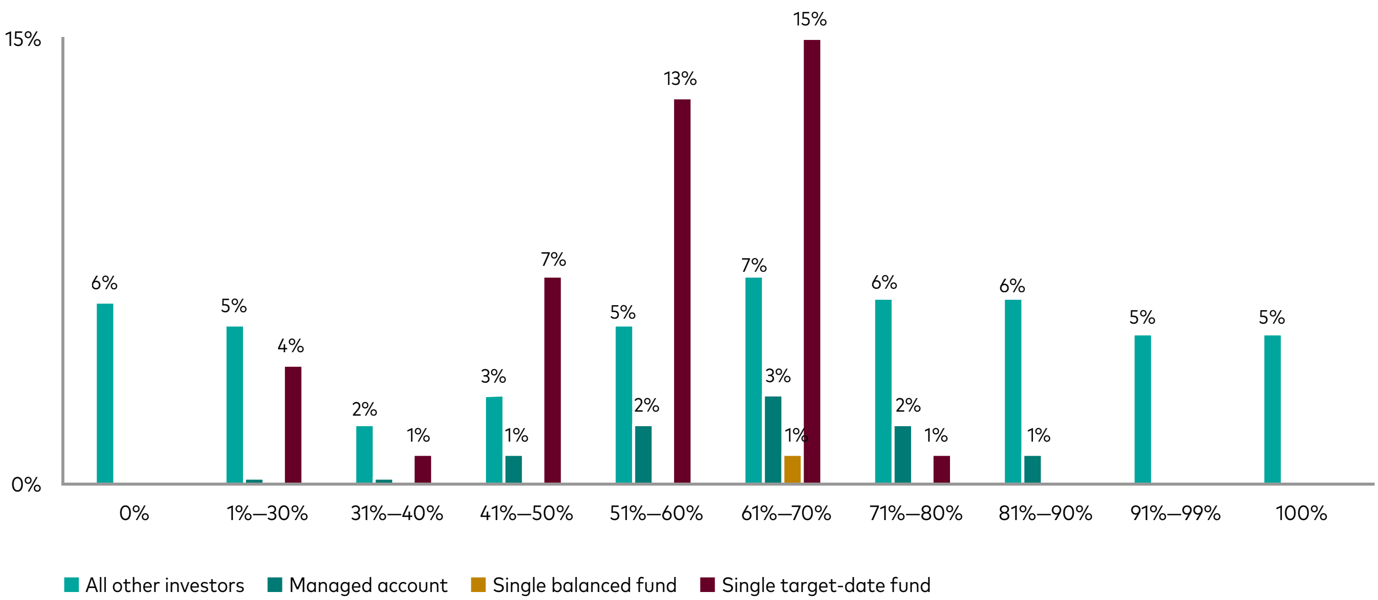


Source: Vanguard, 2023.

As previously noted, younger participants were more likely to have a professionally managed allocation, and, therefore, a higher percentage of them had an age-appropriate equity allocation. Older participants, who may be preparing for or in retirement, were most likely to construct their own portfolio **(Figure 8)**.

Fifty percent of participants ages 55 or older created their own allocation in 2022, while 4 in 10 used a single target-date fund and 9% used a managed account program. While older participants who have a professionally managed allocation typically had equity exposure between 40% and 80%, participants who constructed their own portfolio, who also had the highest average balances, had a wide dispersion of equity allocations, which were somewhat evenly distributed from 0% to 100%. This points to the possibility that many of these older, higher-balance participants could benefit from a professionally managed allocation.

Figure 8. Distribution of equity exposure by older investors, 2022
Vanguard defined contribution plan participants ages 55+



	All other investors	Managed account	Single balanced fund	Single target-date fund
Percentage of population	50%	9%	<1%	41%
Average balance	$324,636	$240,076	$167,424	$76,965
Median balance	$152,414	$126,071	$62,576	$20,683

Source: Vanguard, 2023.

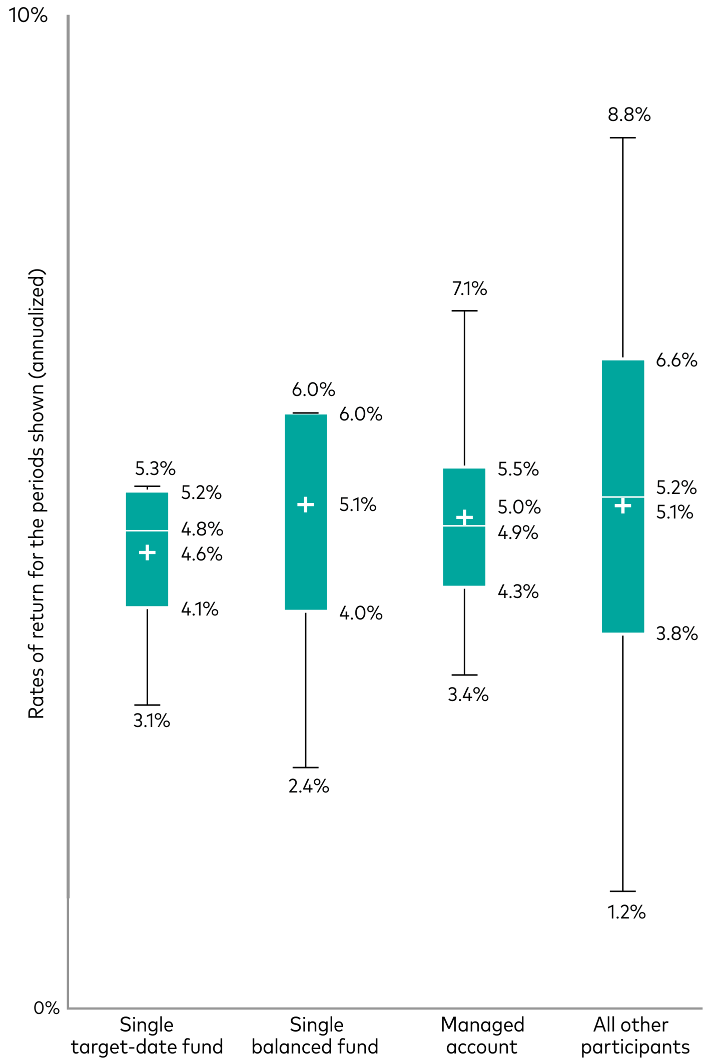
Dispersion of returns

Participants with professionally managed allocations had less dispersion in outcomes compared with do-it-yourself investors in 2022. Total five-year annualized returns for single target-date investors ranged from 3.1% for the 5th percentile to 5.3% for the 95th percentile, a difference of 2.2 percentage points **(Figure 9)**. Managed account investors were slightly more dispersed when compared with single target-date investors, reflecting the customized nature of managed account advice. For managed account participants, the 5th-to-95th percentile difference was 3.7 percentage points.

By comparison, the greatest dispersion was among participants making their own investment choices. Among the do-it-yourself participants, returns ranged from 1.2% per year for the 5th percentile to 8.8% for the 95th percentile, a difference of 7.6 percentage points.

Figure 9. Distribution of five-year total returns by strategy, 2022

Vanguard defined contribution plans



How to read a box and whisker chart: This box and whisker chart shows the range of outcomes. Plot values represent the 95th, 75th, 50th, 25th, and 5th percentile values. The average value is represented by a white + and the median value by a white line. An example of how to interpret the data in Figure 9 is: For the single target-date fund five-year period, 5% of participants had total return rates (TRRs) greater than 5.3%; 25% had TRRs greater than 5.2%; half had TRRs greater than 4.8%; 75% had TRRs greater than 4.1%; 95% had TRRs greater than 3.1%. The average five-year TRR was 4.6%.

Note: Based on 828,000 observations for single target-date fund investors; 20,000 for balanced fund investors; 77,000 for managed account investors; and 1.3 million for all other participants.

Source: Vanguard, 2023.

Past performance is no guarantee of future returns.

Conclusion

Professionally managed allocations continue to reshape investment behavior in DC plans. Their growing use by plan sponsors and participants is improving portfolio construction and leading to more disciplined participant investment behavior.

Furthermore, target-date and advice approaches lead to a disciplined approach to portfolio risk-taking, with risk levels falling as an investor grows older. They also help remedy the problem of extreme allocations found among many DC plan participants. For these reasons, their adoption is likely to continue to increase in the coming years.

These are just some of the conclusions taken from data in *How America Saves 2023*. Expected this June, the full report will include additional data and insights intended to help DC plan sponsors optimize plan design.

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