Participant outcomes remained strong in 2023, as plan sponsors continued to implement automatic solutions and leverage human inertia to influence decision-making, even in the face of an uncertain economic environment. This is among the trends that will be chronicled in How America Saves 2024, the 23rd 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 2023. 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, using thoughtful plan designs and automatic solutions has improved participant outcomes.

What follows is a preview of How America Saves 2024—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 through an uncertain 2023. We believe our findings can help plan sponsors continue to optimize their plan design.
2023 in perspective

There were several notable economic trends in 2023. First, the U.S. economy remained strong as the gross domestic product was positive throughout the year. In addition, inflation moderated and unemployment remained low, leading to increases in real earnings for workers. Strong consumer sentiment and increased spending followed. However, in an effort to lower inflation, the Federal Reserve continued to increase the federal funds rate through the first half of the year. Mortgage rates reached their highest point in more than 20 years, and household debt reached an all-time high. Meanwhile, the equity and bond markets remained relatively volatile throughout the year, although they ended with positive gains of 25% and 5%, respectively. Despite all that, our initial metrics reveal that participant retirement plan behaviors remained largely unaffected.

Account balance averages increased by 19%, driven primarily by positive market performance. Forty-three 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. The proportion of participants in professionally managed allocations (PMAs) remained strong, at 66%. And against a volatile market environment, only 5% of nonadvised participants traded, a record low for How America Saves.

Loan issuances increased moderately in 2023, although issuance rates remain below pre-pandemic levels. Hardship withdrawals also increased from 2022, perhaps signaling that some households were facing financial stress. Although, it’s important to note that more than 96% of participants didn’t take a hardship withdrawal. This data underscores that participants are generally resilient and maintain a long-term approach to retirement saving, even during volatile and uncertain economic times.

A deeper dive into the data

Plan design

As of year-end 2023, 59% of Vanguard plans permitting employee-elective deferrals had adopted an automatic enrollment design. Larger plans (at least 1,000 participants) were more likely to implement automatic enrollment, with 77% of these plans using the feature. In addition, plan designs continued to improve. Sixty percent of plans with an automatic enrollment design defaulted their employees into the plan at a rate of 4% or higher, a trend that has continued to increase every year. And nearly 7 in 10 plans automatically enrolled employees into an annual escalation feature that increased their deferral percentage.
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 and bond markets increased in 2023, average participant account balances increased by 19% from year-end 2022. The average participant account balance was $134,128 as of year-end 2023, and the median balance was $35,286, a 29% increase since year-end 2022.

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 2023, 15% of participants increased their payroll deferral percentage, while 8% decreased their deferral rate.

An additional 28% of participants had their deferral percentage increased from an annual automatic increase, leading to 43% of participants increasing their savings, the highest percentage that we have tracked in How America Saves.
Allocations

The percentage of participant assets invested in equities as of year-end 2023 stood at 74%, in line with year-end 2022.

Seventy-nine percent of plan contribution dollars were invested in equities during 2023, up from 77% in 2022. And an all-time high of 64% of all contributions were invested in target-date funds (TDFs).

Professionally managed allocations and portfolio construction

Underlying the improvements in participant investment allocations is the rising prominence of professionally managed allocations (PMAs). Participants with PMAs 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 2023, 66% of Vanguard participants were invested in a PMA, in line with year-end 2022.

Exchanges

Participant trading, or exchange activity, is the movement of existing account assets from one plan investment option to another. When participants in a managed account program are excluded, only 5% of participants initiated an exchange in 2023, an all-time low.

Additionally, participants who are pure TDF investors can benefit not only from age-appropriate equity allocations and continuous rebalancing, but also are far less likely to trade compared with other investors. Typically, pure target-date investors are four to five times less likely to trade than other investors.
Access to plan assets

Before retirement, plan participants may be able to access their retirement savings through a variety of mechanisms. Active participants can often borrow from their account balance and may have the option of in-service withdrawals.

During 2023, loan use increased by 12% compared with 2022, although it remains below pre-pandemic levels and is about 10% below the loan initiation rate of six years ago.

Overall, hardship withdrawal activity increased modestly in 2023. Throughout 2023, 3.6% of participants initiated a hardship withdrawal, up from 2.8% in 2022. 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. If plan sponsors are not yet using an automatic enrollment design, they should consider it. And for those plans with the feature, how quickly is the plan designed to get participants to a 12%-15% total saving rate on its own?

Additionally, there are many competing financial priorities that employees are facing, and retirement savings is just one piece of the puzzle. 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 where they are on their financial journey and help provide personalized solutions for their goals.

We hope this How America Saves 2024 preview helps plan sponsors better prepare their participants for retirement. The full report will include more data and additional insights. Recommended plan actions will also be identified by Vanguard Strategic Retirement Consulting (SRC) group. SRC helps DC plan sponsors optimize their plan design, develop fiduciary best practices, and ensure regulatory compliance. SRC also shares insights on investor behavior and collaborates on strategic communications.
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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