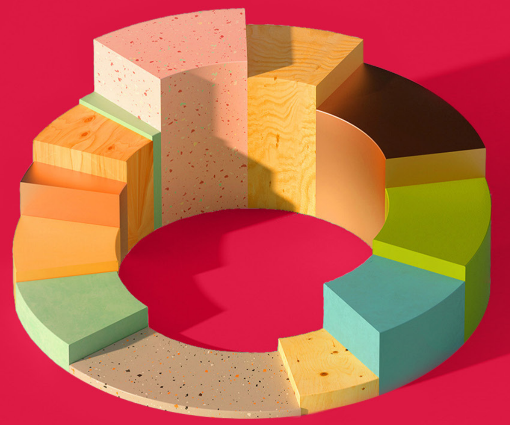
Vanguard

How America Saves 2022

A preview of encouraging trends



February 2022

Participant outcomes continue to improve as plan sponsors continue to implement automatic solutions and leverage human inertia to influence decision-making. This holds true even when we look at the impact of COVID-19 on retirement savings. While the pandemic's definitive history has yet to be written, the analysis of participant behavior through 2020 and 2021 is encouraging.

Our data highlights that participants have generally remained resilient. Even as many have faced a variety of uncertainties, participants' overall behavior in retirement plans has stayed steady, and most continue to maintain a long-term view.

Why?

Over the last two decades, continued adoption of automatic enrollment has increased employee savings and the use of professionally managed allocations. From both a savings and investment perspective, thoughtful plan designs, utilizing automatic solutions, have helped improve participant outcomes. These and other trends are chronicled in *How America Saves*, our annual analysis of retirement saving behavior that enters a third decade of industry coverage with its 21st edition this summer.

What follows is a preview of *How America Saves 2022*—an examination of retirement plan data from nearly 5 million defined contribution (DC) plan participants across Vanguard's recordkeeping business.

It highlights several positive trends documented over the past 20 years and how these trends have continued throughout an uncertain environment in 2021. We believe this information, as always, can help plan sponsors optimize their plan design.

2021 in perspective

The COVID-19 pandemic maintained its grip on many parts of the economy. And while continuing to recover from 2020, the economy faced prominent headwinds in 2021 that stoked several forms of uncertainty. Inflation increased to its highest point in decades. Supply-chain challenges tempered economic growth. And a tightened labor market continued to test employers while employees left their jobs in record numbers—either changing jobs or leaving the workforce entirely. But despite this uncertainty, our initial metrics reveal that participant retirement plan behaviors remained largely unaffected.

By year-end 2021, average account balances increased by 10%. Although participants did change (increase and decrease) their deferral amounts, rates remained largely positive like previous years.

The proportion of participants in professionally managed allocations increased to 64%, and 78% of participants maintained a balanced strategy, up from 76% in 2020. And while they were more active in trading in 2020 because of additional market volatility, only 8% traded in 2021, down from 10% in 2020.

Loan issuances increased slightly last year, although overall withdrawals were down compared with 2020, as expected with the expiration of the CARES Act. Most participants did not access their retirement plans during 2021. This data underscores that participants are resilient and maintain a long-term approach to retirement savings.

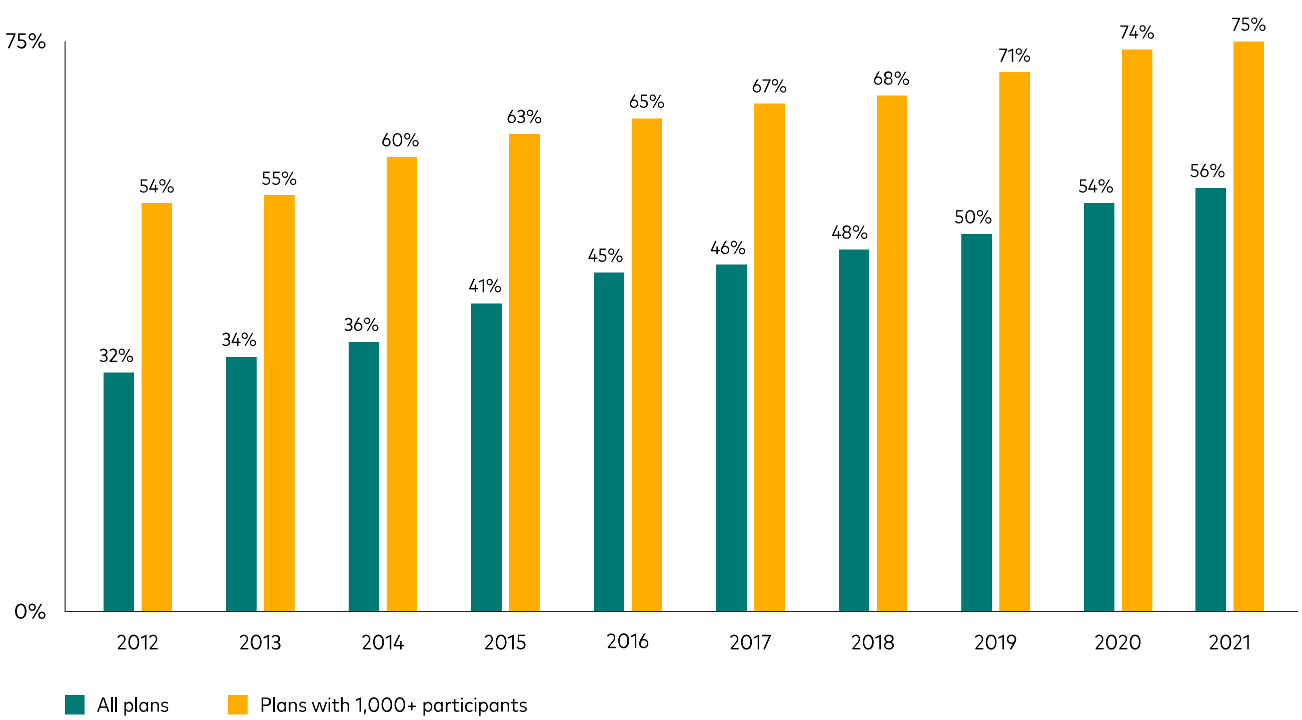
A deeper dive into the data

Plan design

As of year-end 2021, 56% of Vanguard plans permitting employee-elective deferrals had adopted an automatic enrollment design, up from 54% in 2020. Larger plans were more likely to implement automatic enrollment, with 75% of plans with at least 1,000 participants using the feature.

In addition, plan designs continued to improve. As of year-end, 58% of plans with an automatic enrollment design defaulted their participants into the plan at a rate of 4% or higher, a trend that has continued to increase every year. And 7 in 10 plans automatically enrolled participants into an annual escalation feature, which increases their deferral percentage each year.

Automatic enrollment adoption trends



As of December 31, 2021.
Source: Vanguard.

Account balances

Account balances are widely accessible on statements and websites and are often cited as participants' principal tool for monitoring investment results. As global equity markets continued their rise from the March 2020 pandemic low, average participant account balances increased by 10% from year-end 2020. The average participant account balance was $141,542 as of year-end 2021, and the median balance was $35,345, a 6% increase since year-end.

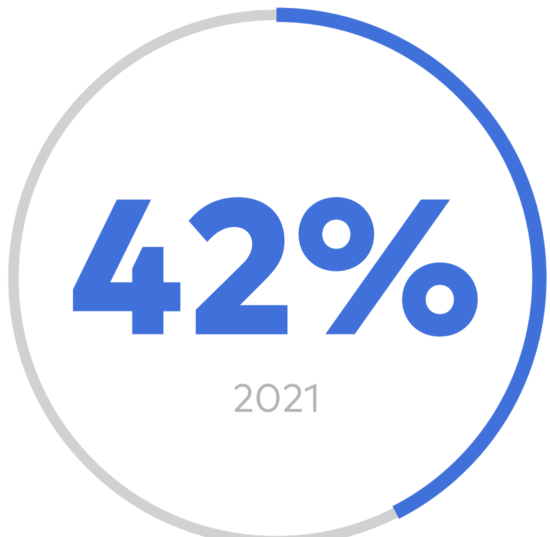
Contributions

In typical DC plans, participants are the primary source of funding. Therefore, how participants manage their payroll deferral percentages significantly affects their retirement savings. In 2021, 17% of participants increased their payroll deferral percentage, while 7% decreased their deferral rate. And an additional 25% of participants had their deferral percentage increased via an annual automatic increase. These behaviors are very much in line with previous years.

Allocations

The percentage of all participant assets invested in equities as of year-end 2021 stood at 74%, up 2 percentage points from year-end 2020.

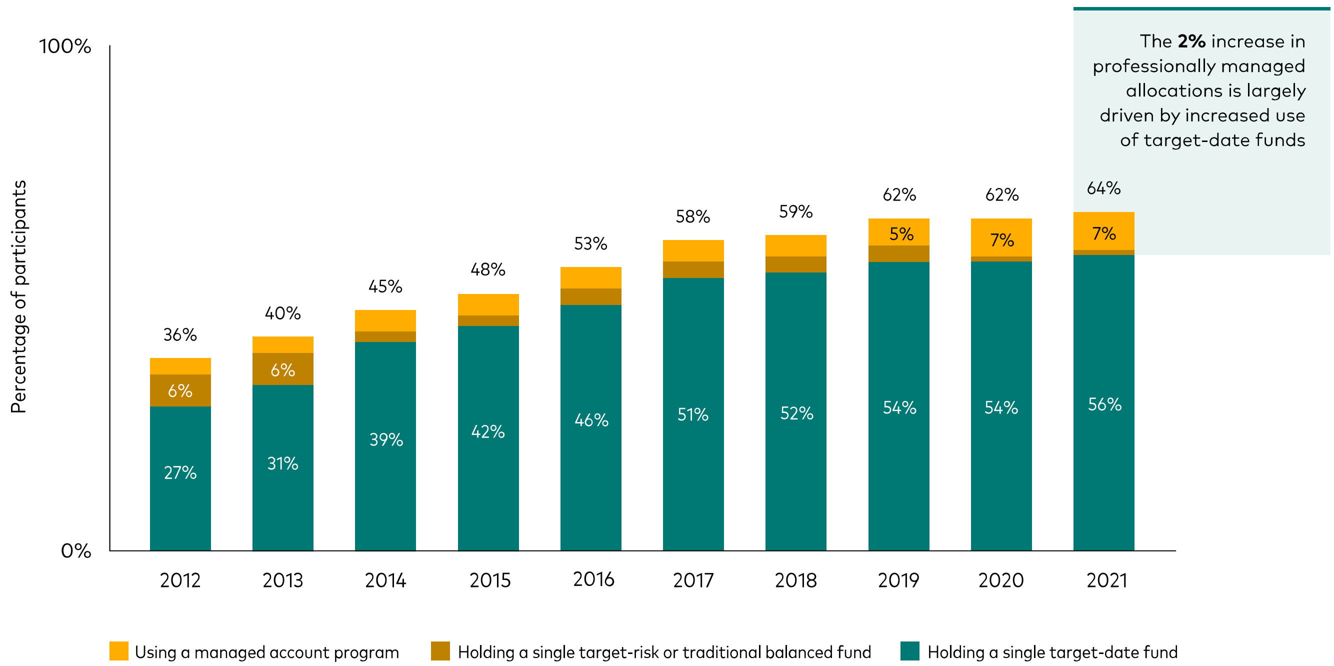
Seventy-seven percent of plan contribution dollars were invested in equities, in line with total 2020 contributions. Six of every 10 dollars contributed throughout the year were invested in target-date funds (TDFs).



of plan participants increased their payroll deferral percentage in 2021, either voluntarily or through an automatic increase

As of December 31, 2021.
Source: Vanguard.

Participants using professionally managed allocations



As of December 31, 2021.
Source: Vanguard.

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 solely in a single target-date, target-risk, or traditional balanced fund, or in a managed account advisory service.

As of year-end 2021, 64% of Vanguard participants were invested in a professionally managed allocation, up 2 percentage points from year-end 2020.

This rising use of professionally managed allocations is also contributing to a reduction in portfolio construction errors. The fraction of participants holding broadly diversified portfolios has steadily risen over the past decade and stood at 78% at the end of the year.

Exchanges

Participant trading, or exchange activity, is the movement of existing account assets from one plan investment option to another. When participants using the managed account program are excluded, 8% of participants initiated an exchange in 2021, compared with 10% in 2020. Given the uncertainty in the economy, it is remarkable that fewer than 1 in 10 participants made an exchange throughout the entire year.

Additionally, participants who are pure TDF investors not only benefit from continuous rebalancing during volatile markets but are also far less likely to trade when compared with all other investors. In 2021, only 3% of all pure TDF investors made an exchange, a rate five times lower than all 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 hardship or in-service withdrawals.

During 2021, loan use increased slightly compared with 2020; however, it remained below the typical loan use rates of years before COVID-19. We speculate this modest increase is partly attributable to an increase in consumer spending in 2021.

In-service withdrawal activity was down as compared with 2020. This was expected, as access to assets through coronavirus-related distributions ended as of year-end 2020. Both traditional hardship and nonhardship withdrawals trended similarly to pre-pandemic levels in 2021.

A continued need for financial well-being

Progress has been made, but opportunities for improvement remain. Plan sponsors not yet utilizing an automatic enrollment design should consider doing so. And for those using the feature, their plan should be designed to get participants to a 15% total saving rate.

Additionally, there are many competing financial priorities for participants, and retirement savings is just one piece of the puzzle. Managing student loans, health care savings, credit card debt, and emergency savings goals—just to name a few—can be daunting and complex. Plan sponsors can offer support with a cost-efficient, high-quality advice offer and a platform that provides financial wellness guidance, two valuable services that aid participants at any point on their financial journey and help provide personalized solutions for their goals.

We hope this preview of *How America Saves 2022* helps plan sponsors better prepare their participants for retirement. Expected this summer, the full report will include additional data and insights. Vanguard Strategic Retirement Consulting (SRC) will identify recommended plan actions. SRC helps DC plan sponsors optimize plan design, develop fiduciary best practices, and ensure regulatory compliance. SRC also shares insights on investor behavior and collaborates on strategic communications.

For more information, please contact your relationship manager.

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All investing is subject to risk, including the possible loss of the money you invest.

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.

There is no guarantee that any particular asset allocation or mix of funds will meet your investment objectives or provide you with a given level of income.

Diversification does not ensure a profit or protect against a loss.

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