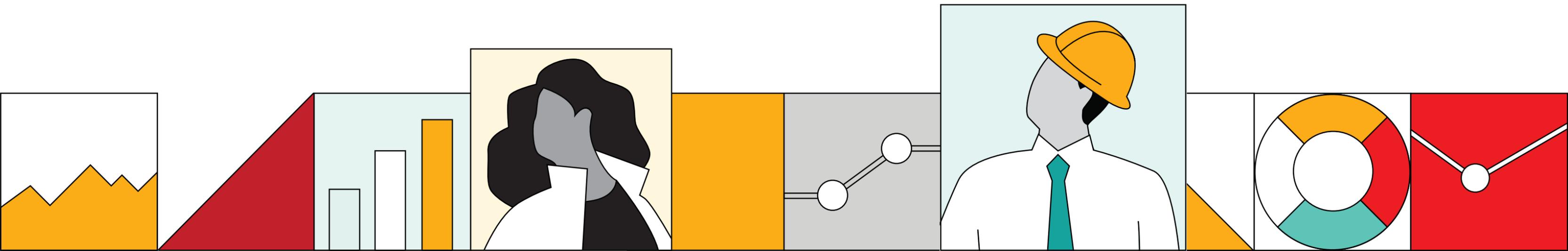


How America Saves 2022

Insights to Action

for small and midsize businesses



Insights 2022

We believe in retirement success for all. Small and midsize businesses have the ability to put retirement within reach for every employee.

During times of uncertainty, widening the focus of retirement plans to encompass every phase of a plan participant's financial journey simply makes sense.

Why?

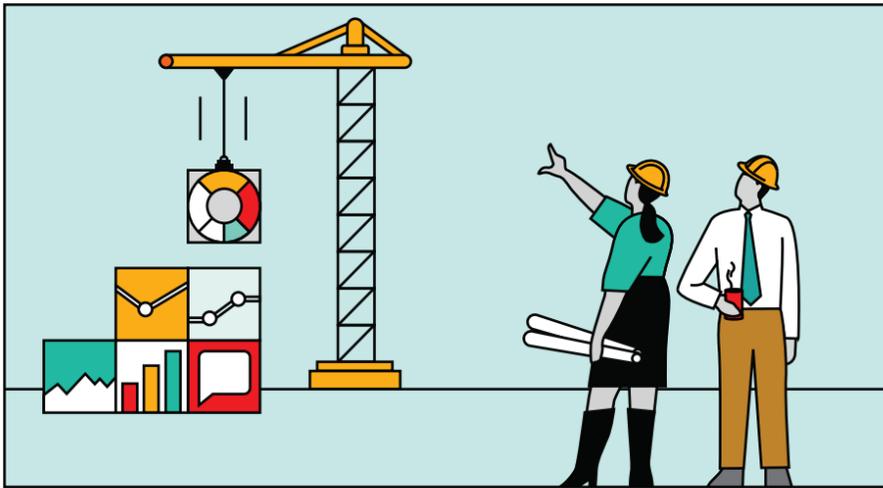
We know near-term financial challenges can jeopardize long-term retirement success. And participants continue to face an unprecedented number of near-term challenges.

While the economy continued to recover from the COVID-19 pandemic in 2021, the challenges mounted: Inflation increased to its highest point in decades, supply-chain disruptions tempered economic growth, and a tightened labor market continued to test employers while their employees left in record numbers—either changing jobs or leaving the workforce entirely.

The good news: While these challenges remain, we believe plan sponsors can use smart plan design to help keep participants on the road to financial well-being.

This year's *Insights to Action* focuses on three key themes we've identified in our *DC Plan Comparison: Small Versus Large Employers*. These recommendations are tailored for small and midsize businesses and based on the belief that strong plan design serves participants well in all stages of their financial journey.

Key themes



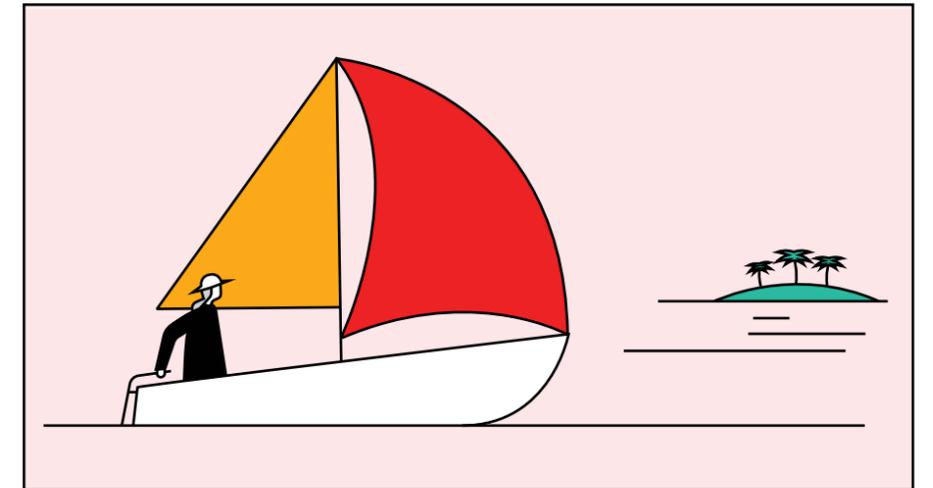
01

Support financial well-being with professionally managed allocations



02

Boost participation rates using automatic enrollment



03

Adopt a safe harbor plan design

01

Support financial well-being with professionally managed allocations

PLAN ACTIONS

- 1 Offer an advice option.
- 2 Make TDFs your default by using a QDIA and choosing TDFs as the option.
- 3 Reenroll participants into TDFs by sweeping them into an appropriate TDF, helping to ensure portfolios are age appropriate and properly diversified.



Broaden the scope of retirement plans to support participants' financial well-being with self-directed solutions and advice that focus on every step of their journey to and through retirement.

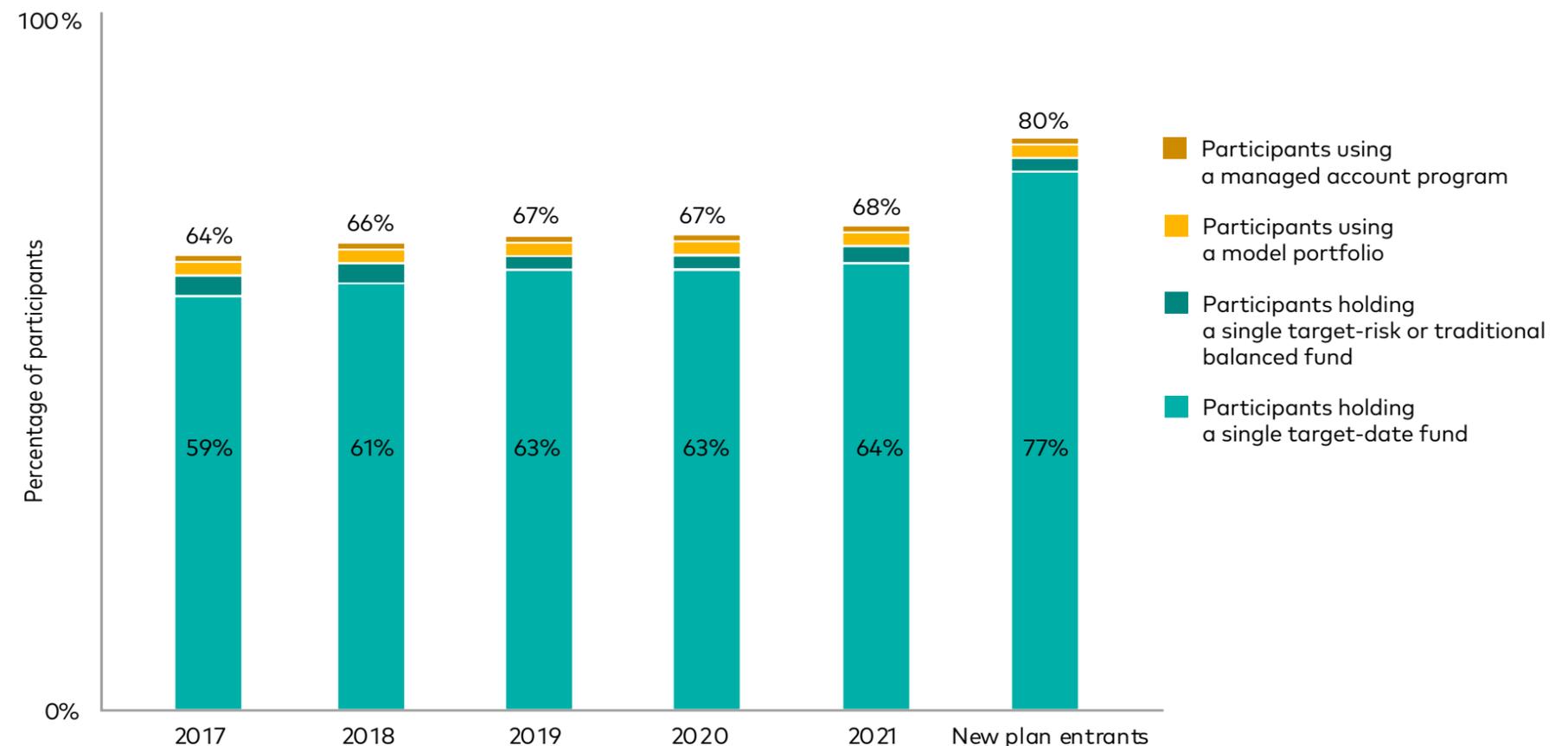
An increasing number of participants are invested in a professionally managed allocation. In fact, the percentages of participants in either a target-date fund or an advised managed account program reached all-time highs in 2021.

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

As of year-end 2021, 68% of VRPA participants were invested in a professionally managed allocation, compared with 64% of participants in Vanguard large-market plans.

Participants with professionally managed allocations

Vanguard Retirement Plan Access™ (VRPA) defined contribution plans



Source: Vanguard 2022.

02

Boost participant rates using automatic enrollment

PLAN ACTIONS

- 1 Implement automatic enrollment with automatic annual increases.
- 2 Default participants at 6%, or at least to the employer match.
- 3 Perform reenrollment, automatic escalation, and undersaver sweeps.



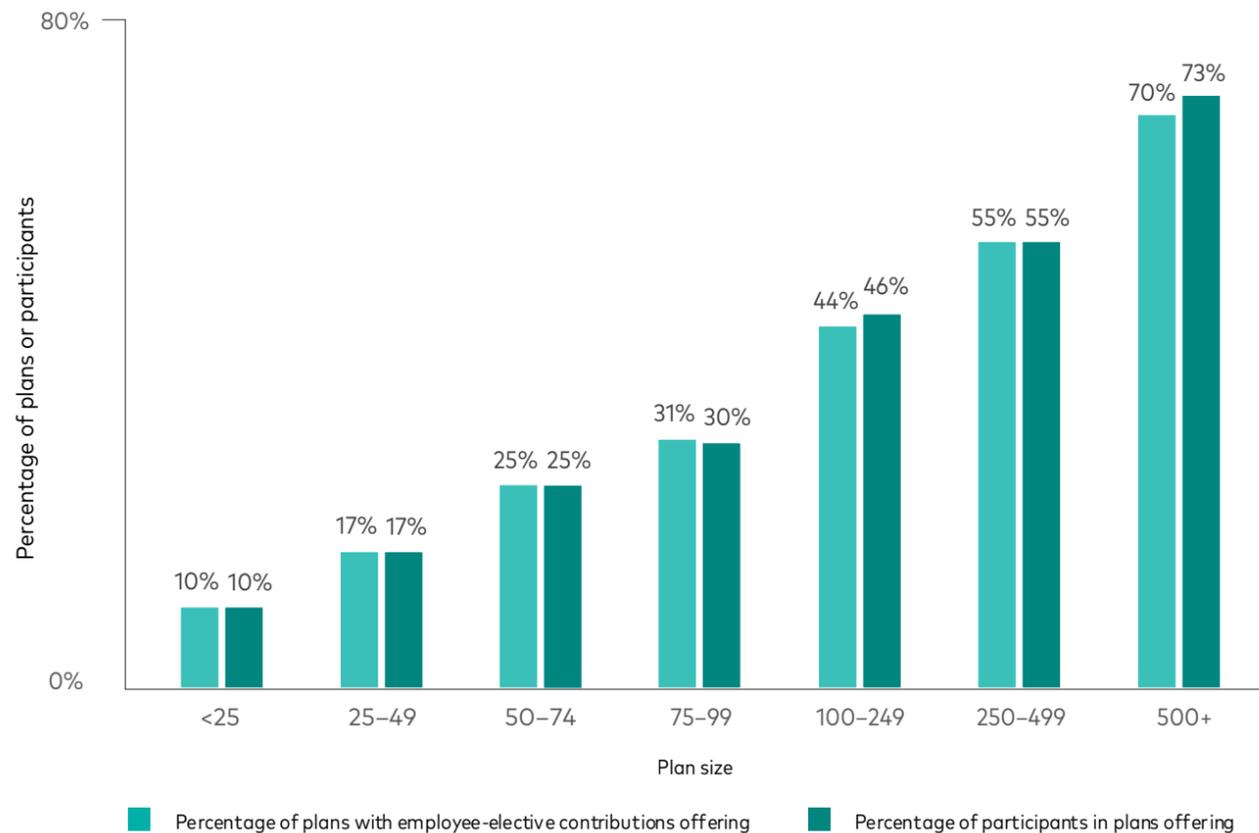
Combine automatic plan features with a higher default rate for a powerful savings boost

Automatic solutions (automatic enrollment and automatic escalation) are proven to increase plan participation and saving rates. In fact, for those small plans that have automatic enrollment, the participation rate was 53% higher than that of voluntary enrollment plans.

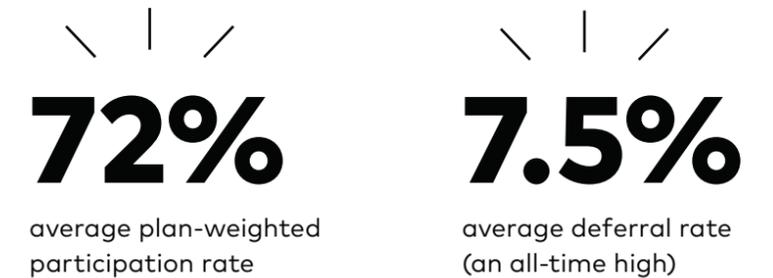
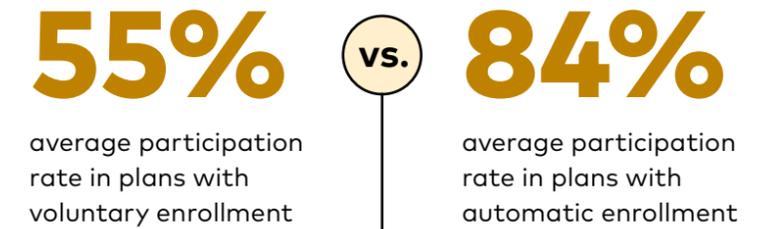
As of year-end 2021, only 17% of VRPA plans offered automatic enrollment, compared with 56% of Vanguard large-market plans.

Automatic enrollment by plan size, 2021

VRPA defined contribution plans with employee-elective contributions



Source: Vanguard 2022.



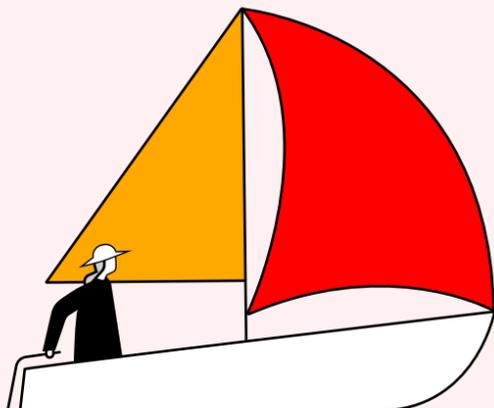
A modest increase in participant deferral rates of 1, 2, or 3 percentage points would enable an additional **20%** of participants to attain a **75%** replacement ratio in retirement.

03

Adopt a safe harbor design

PLAN ACTIONS

- 1 Simplify your compliance process.
- 2 Attract and retain top talent with contributions that are fully vested.
- 3 Empower employees to maximize their deferrals.



Pass certain annual tests automatically to ensure compliance with IRS regulations—if specific requirements are met.*

Seventy percent of VRPA plans with an employer contribution had adopted a safe harbor employer contribution design as of year-end 2021. The most common design was one with a value of 4%—up to the first 5%—of employee contributions (representing 40% of safe harbor plans).

Why are safe harbor 401(k) plans so popular? Safe harbor plans reduce plan maintenance because they generally don't require the following compliance tests:

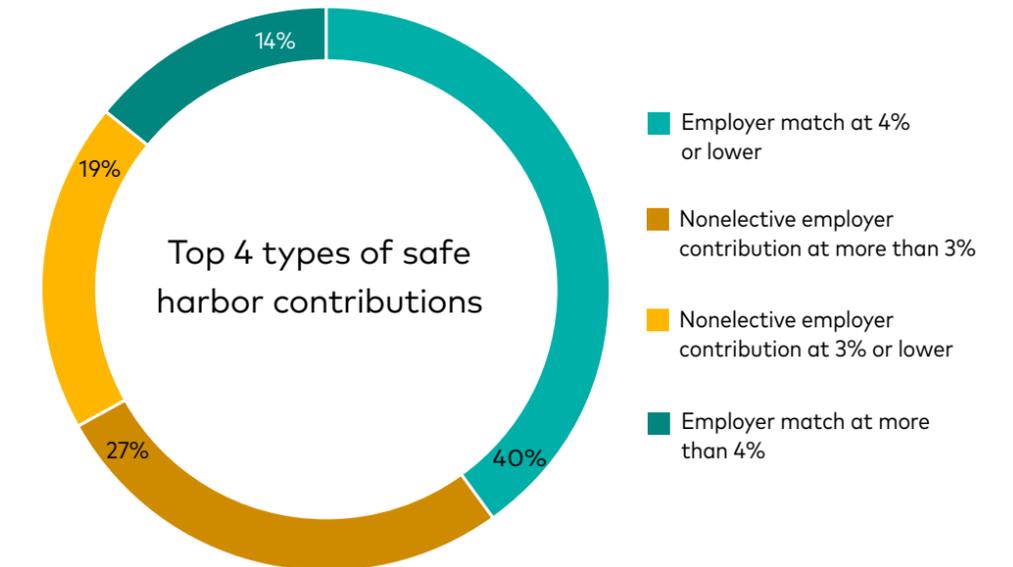
- Actual deferral percentage (ADP)
- Actual contribution percentage (ACP)
- Top-heavy plan

As of December 2021, 70% of VRPA plans had adopted a safe harbor design versus only 36% of large-market Vanguard plans.

*If an employer makes contributions—either matching, nonelective, or discretionary—that exceed certain limits/requirements, the employer is required to treat them as non-safe harbor contributions and subject the plan to ACP and top-heavy testing. After-tax employee contributions also subject the plan to these tests.

Safe harbor designs, 2021

VRPA defined contribution plans with employer contributions



Source: Vanguard 2022.

Benchmarking data

To help you better understand the benefits of smart plan design, we've compiled plan data from *How America Saves 2022* for you to use as a benchmark. We hope this guide will serve as a valuable resource as you go through the process of refining your retirement plan.

Key metrics that are indicators of plan health

	Participation rate	Average deferral rate	Average employer contribution match rate	Average total saving rate	Participants with balanced strategies
VRPA (small plans)	62%	7.5%	4.0%	10.1%	79%
Vanguard benchmark	81%	7.3%	4.4%	11.2%	78%
Why it matters	By choosing to offer employees a plan to save for the future, you've made a great decision for both them and your business. But the first step toward ensuring that you're maximizing this investment is to encourage employees to join the plan.	In a typical defined contribution plan, employees are the main source of funding, while employer contributions play a secondary role. This means that the level of participant deferrals is a critical determinant of whether the plan will generate an adequate level of retirement savings.	Vanguard recommends that participants save 12% to 15% of their salary each year, including employer contributions. Succeeding in getting them to save more through communication and education and offering employer contributions can help employees meet their savings goal.	By offering employer contributions, employees may be inspired to contribute more. Employer contributions help lead to higher total saving rates.	Both asset allocation and diversification are rooted in the idea of portfolio balance. Historically, balanced portfolios avoid exposure to unnecessary risks and can help participants remain committed to a long-term investment program through periods of market uncertainty.
Ways to improve in these key areas (See slides 3–6 for more details)	<ul style="list-style-type: none"> • Consider autoenrollment. • Partner with a plan advisor. 	<ul style="list-style-type: none"> • Adopt a safe harbor plan design. • Partner with a plan advisor. 	<ul style="list-style-type: none"> • Assess your plan design features. • Partner with a plan advisor. 	<ul style="list-style-type: none"> • Assess your plan design features. • Partner with a plan advisor. 	<ul style="list-style-type: none"> • Use professionally managed allocations. • Partner with a plan advisor.

Source: Vanguard 2022.

Conclusion

We believe small and midsize plan sponsors should continue to focus on smart plan design

Autoenrollment can boost participation and help set your employees up for retirement success. Additionally, broadening the scope of retirement plans can support participants' financial well-being by focusing on every step of their journey to and through retirement. Finally, adopting a safe harbor design simplifies compliance, empowers employees to maximize their deferrals, and can serve as an effective recruitment and retention tool.

The three key themes and recommended plan actions were identified by Vanguard Strategic Retirement Consulting (SRC) group. SRC helps defined contribution (DC) plan sponsors optimize their plan design, develop fiduciary best practices, ensure regulatory compliance, as well as share insights on investor behavior and collaborate on strategic communications.

Our complete analysis of Vanguard 2021 DC plan data can be found at institutional.vanguard.com. If you would like to learn more about the key themes in *Insights to Action*, or any of the data from *How America Saves 2022*, please reach out to a Vanguard representative.



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