HOW **AMERICA** SAVES **2020**: AN UPDATE

Vanguard defined contribution plan data through April 2020

Executive summary

Participant retirement plan behaviors remained largely unaffected through April 2020—despite impacts on the global economy, increased market volatility, and unprecedented financial and nonfinancial uncertainty caused by the COVID-19 pandemic.

For the 12 months ended April 30, 2020, median account balances of continuous participants—those with an account balance in both April 2019 and April 2020—increased by 5.0%, while average total returns dropped 1.6%. Participation and deferral rates have remained steady during the first four months of 2020, and the proportion of participants in professionally managed allocations has remained the same since year-end 2019. While participant trading has increased with market volatility, nearly 95% of participants did not initiate a trade during the first four months of 2020.

Loan issuances declined through April 2020, as did both hardship and nonhardship withdrawals. And while a small percentage of participants accessed their retirement savings through provisions in the Coronavirus Aid, Relief, and Economic Security (CARES) Act—which provides additional financial options for workers with retirement savings facing unforeseen circumstances related to COVID-19—the vast majority of participants have not accessed their retirement plans during these difficult times. Participants are resilient and are maintaining a long-term approach to their retirement savings.

Account balances

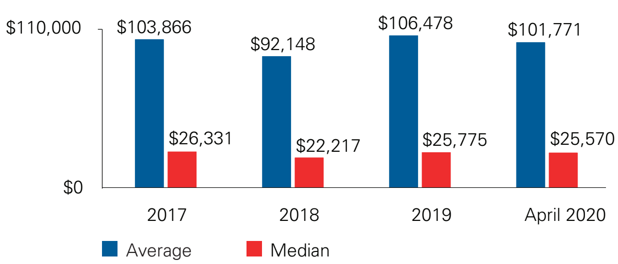
Account balances are widely available on statements and websites and are often cited as participants' principal tool for monitoring investment results. In April 2020, the average account balance for Vanguard participants was $101,771, a 4% decrease from $106,478 at year-end 2019 (Figure 1). The median balance was $25,570, a 1% decrease since year-end.

When we examine data for continuous participants, the median account balance rose by 5% (Figure 2). Nearly two-thirds of these continuous participants saw their balances rise, primarily because of ongoing contributions. Among continuous participants with a balance in both April 2015 and April 2020, the median account balance rose 71%, and 91% had a higher account balance in April 2020, compared with five years earlier.

Because of ongoing contributions, account balances will appear to be less negatively impacted during falling markets. This "contribution effect" may mask the psychological impact of falling stock prices on participants. In addition, while equity markets decreased during the first four months of 2020, domestic bond markets were positive and helped offset negative equity returns for the majority of well-diversified participants.

Figure 1. Account balances

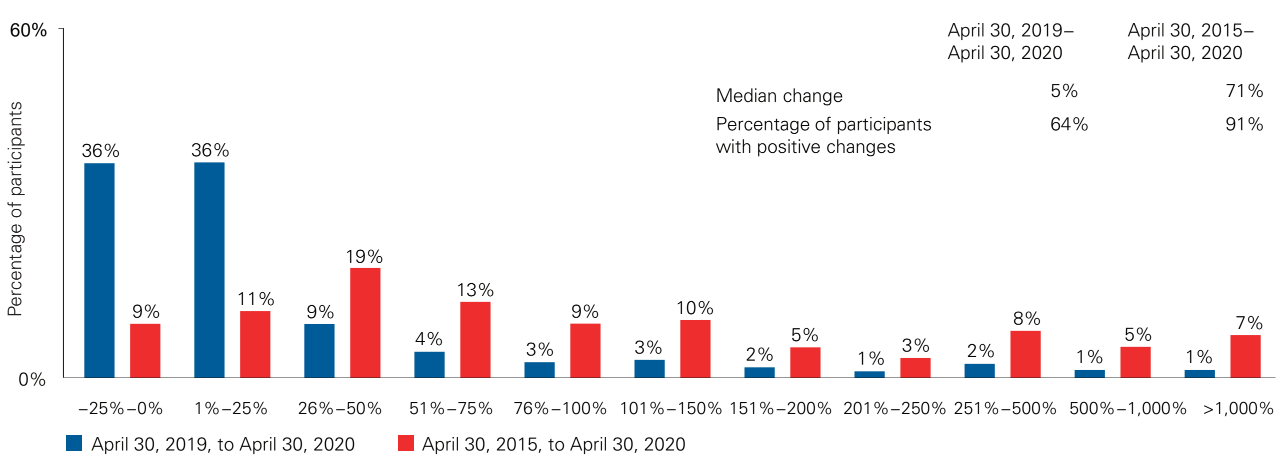
Vanguard defined contribution plans



Source: Vanguard 2020.

Figure 2. Change in account balances, continuous participants

Vanguard defined contribution participants with a balance at both the beginning and end of the period



Source: Vanguard 2020.

Contributions

From January through April 2020, 7.2% of participants increased their payroll deferral percentage, while 6.9% decreased their deferral rate. This excludes participants who had their deferral percentage automatically increased through an autopilot design. Overall, participation and deferral rates have held steady during the first four months of 2020.

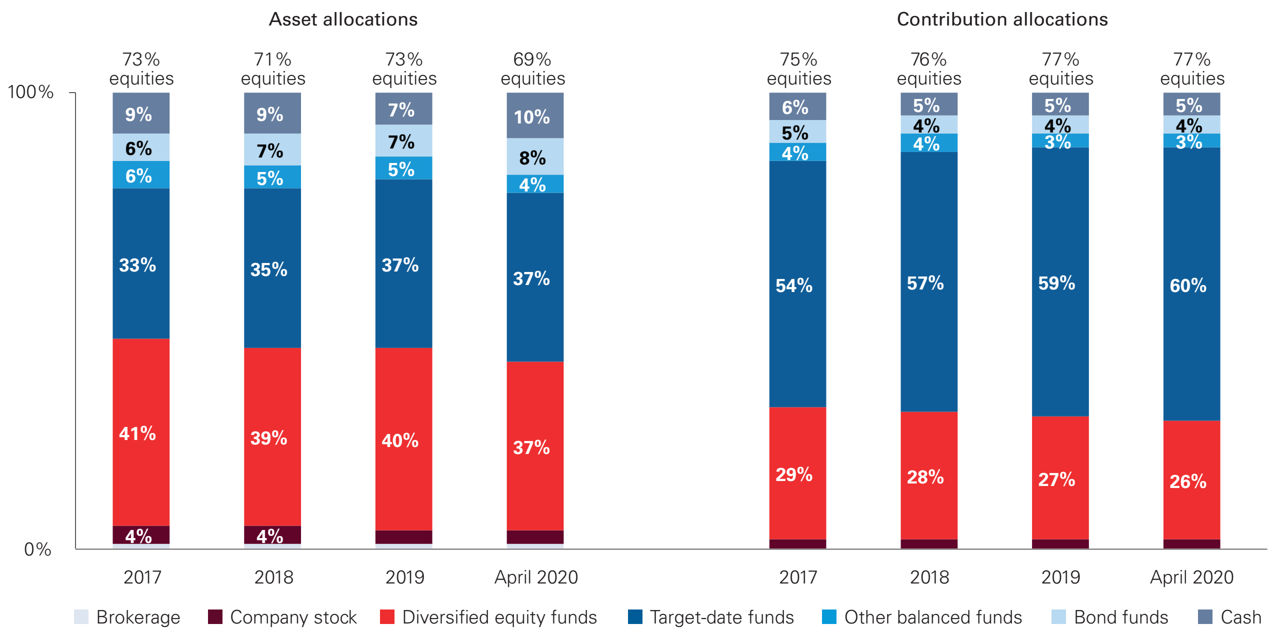
Allocations

The percentage of plan assets invested in equities as of April 2020 stood at 69% (**Figure 3**), down from 73% as of year-end 2019, primarily because of a decrease in equity markets. The allocation to equities includes the equity component of balanced strategies. When we examine equity allocations on a participant-weighted level, the average allocation to equities as of April 30, 2020, was 75%, just 1 percentage point lower than 76% at year-end.

Seventy-seven percent of plan contribution dollars were invested in equities during the first four months of 2020, in line with total 2019 contributions. Six of every 10 dollars contributed were invested in target-date funds.

Figure 3. Plan asset and contribution allocations

Vanguard defined contribution plans



Source: Vanguard 2020.

Professionally managed allocations

Participants with professionally managed allocations have their entire account balance invested in a single target-date, target-risk, or traditional balanced fund, or in a managed account advisory service.

As of April 30, 2020, 62% of Vanguard participants were invested in a professionally managed allocation (Figure 4), identical to the percentage at year-end.

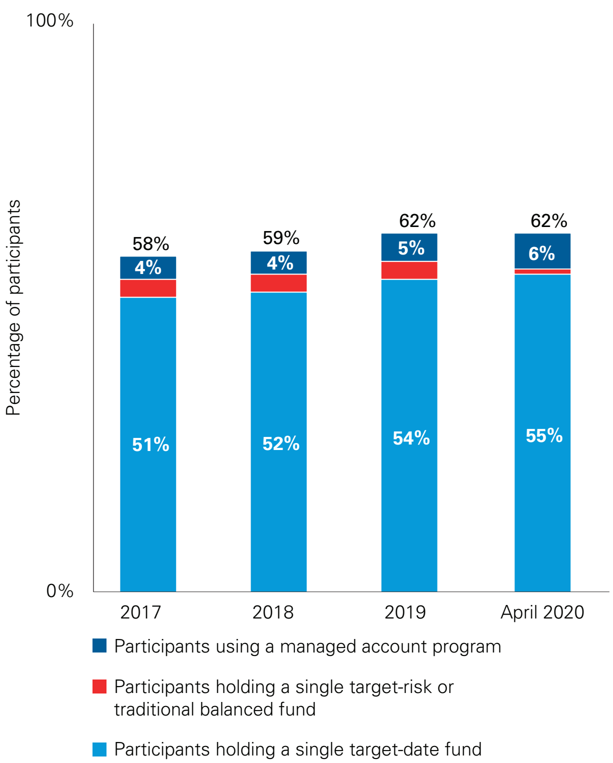
Portfolio construction

This rising use of professionally managed allocations is also contributing to a reduction in portfolio construction errors (Figure 5). The fraction of participants holding broadly diversified portfolios has steadily risen over the past decade and stood at 77% in April 2020.

Most notably, the proportion of participants who had either conservative or no equity positions as of April 2020 did not change since year-end 2019.

Figure 4. Participants with professionally managed allocations

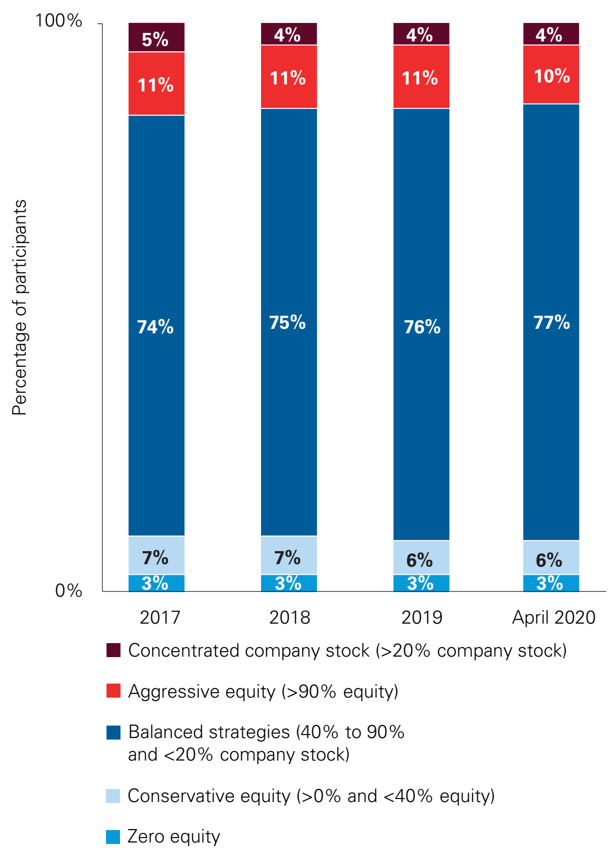
Vanguard defined contribution plans



Source: Vanguard 2020.

Figure 5. Participant portfolio construction

Vanguard defined contribution plans



Source: Vanguard 2020.

Returns

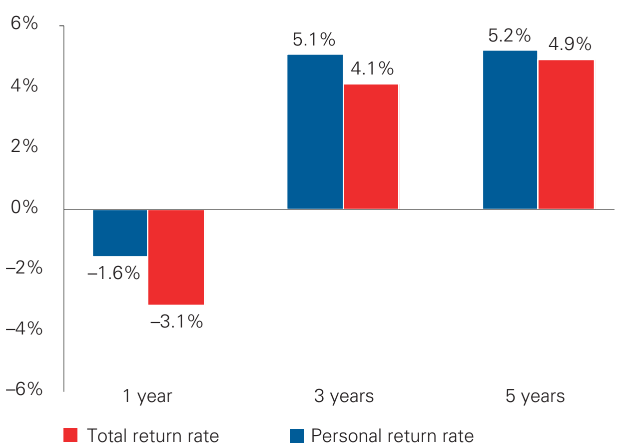
There are two categories of investment returns: total returns and personalized returns. Total returns reflect time-weighted investment performance and allow comparison with benchmark indexes. Personalized returns are dollar-weighted returns, reflecting account investment performance, adjusted for each participant's unique pattern of contributions, exchanges, and withdrawals. They are not directly comparable to time-weighted performance data for market indexes or mutual funds. Both return measures are influenced by market conditions; however, only total returns can be compared with published benchmark indexes.

Average total and personal returns for DC participants were –1.6% and –3.1%, respectively, for the one-year period ended April 30, 2020 (Figure 6). Over the one-year period, domestic equities and bonds were positive. International equities were –11.0%, however. Reflecting positive U.S. equity and bond markets, average total returns for DC participants were 5.1% across the three-year period and 5.2% for the five-year period ended April 30, 2020.

Figure 6. Participant rates of return, April 2020

Vanguard defined contribution plans

Average rates of return for the periods shown (annualized)



Source: Vanguard 2020.

Market returns ended April 30, 2020	1 year	3 years	5 years
60/40 Balanced*	3.6%	6.6%	6.0%
70/30 Balanced*	2.1%	6.6%	6.3%
S&P 500	0.9%	9.0%	9.1%
Bloomberg Barclays US Aggregate	10.8%	5.2%	3.8%
FTSE Global All Cap ex US	–11.0%	–0.4%	0.2%

Source: Vanguard 2020.

Past performance is no guarantee of future returns.

The performance of an index is not an exact representation of any particular investment, as you cannot invest directly in an index.

* Balanced composites based on S&P 500 and Bloomberg Barclays US Aggregate Indexes for periods and percentages shown; rebalanced monthly.

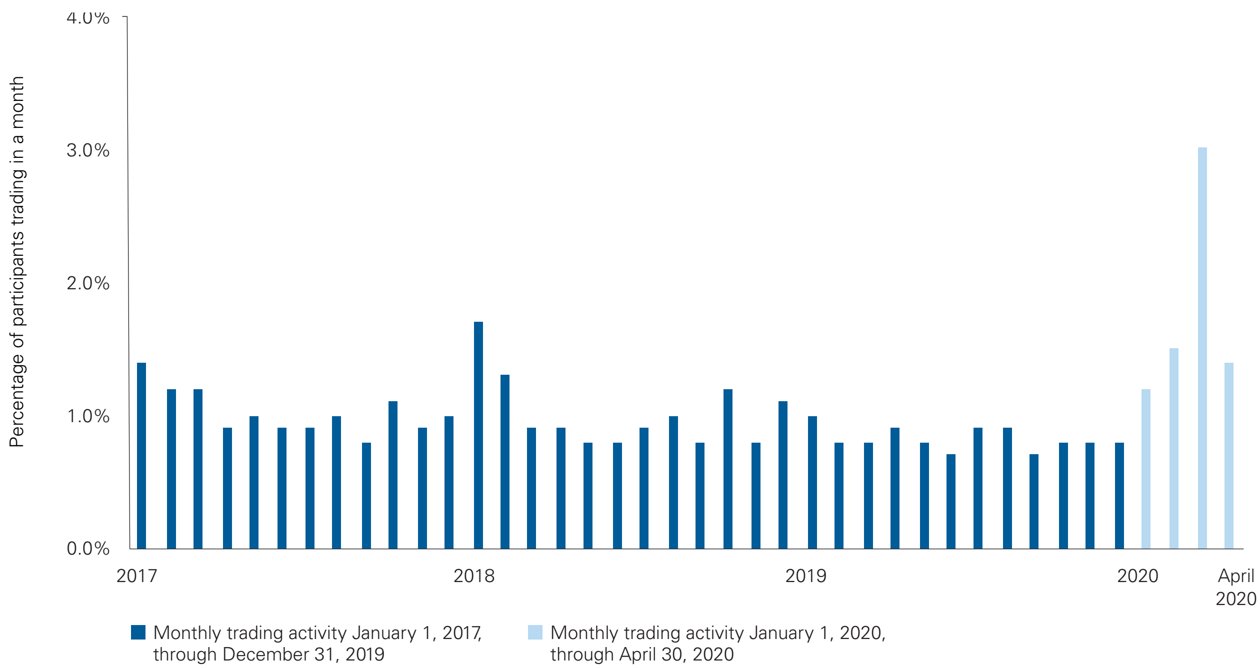
Exchanges

Participant trading or exchange activity is the movement of existing account assets from one plan investment option to another. Exchange activity is a proxy for a participant's holding period for investments, as well as a measure of the participant's willingness to change their portfolio in response to short-term market volatility.

When participants using the managed account program are excluded, 5.3% of participants initiated an exchange during the first four months of 2020, compared with 2.9% during the same period in 2019. Typically, about 1% of participants initiate an exchange in a given month (Figure 7). While trading increased during the first four months of 2020, 95% of participants did not make an exchange. Importantly, less than 1% panicked and abandoned equities.

Figure 7. Trading activity, January 2017–April 2020

Vanguard defined contribution participants



Source: Vanguard 2020.

Participants who are pure target-date fund investors not only benefit from continuous rebalancing during volatile markets but are also far less likely to trade when compared with all other investors. Through April 2020, only 1.7% of all pure target-date investors made an exchange, a rate five times lower than all other investors.

Summary statistics may sometimes give the impression that all participant trading is in one particular direction. However, in any given month, participants who trade are trading meaningful dollar amounts both into and out of equities (Figure 8).

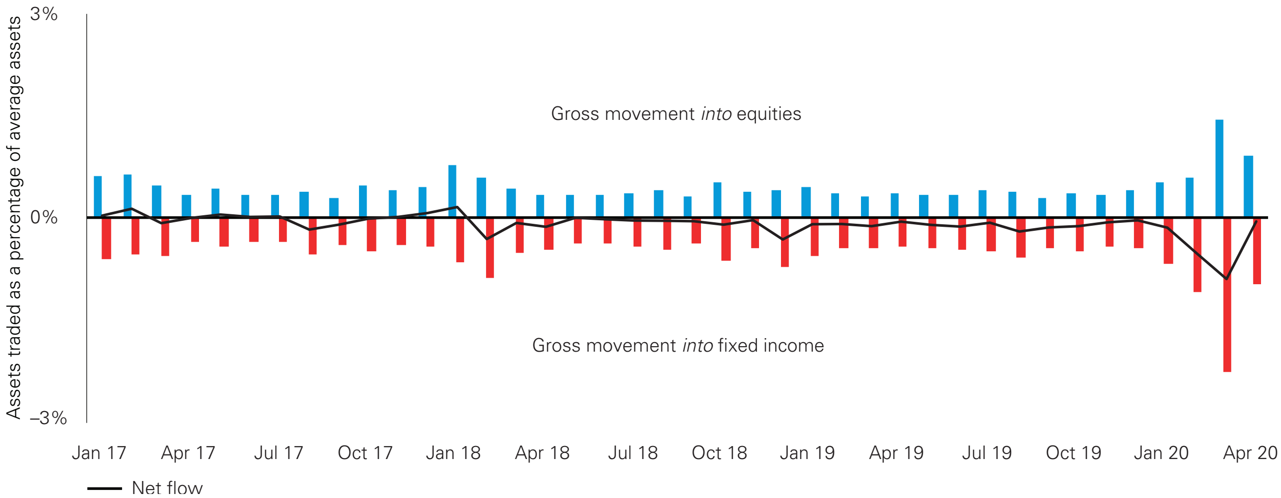
Even in volatile markets, as some traders shift their portfolios toward fixed income assets, others shift toward equities.

During the past several years, the net movement of money among participants trading in their accounts has been generally toward fixed income investments. Nonetheless, even at the height of market volatility, there were significant gross flows toward equities among some participants.

Figure 8. Direction of money movement, January 2017–April 2020

Vanguard defined contribution plans

Money movement as a percentage of average assets



Source: Vanguard 2020.

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 the target-date fund is not guaranteed at any time, including on or after the target date.

Access to plan assets

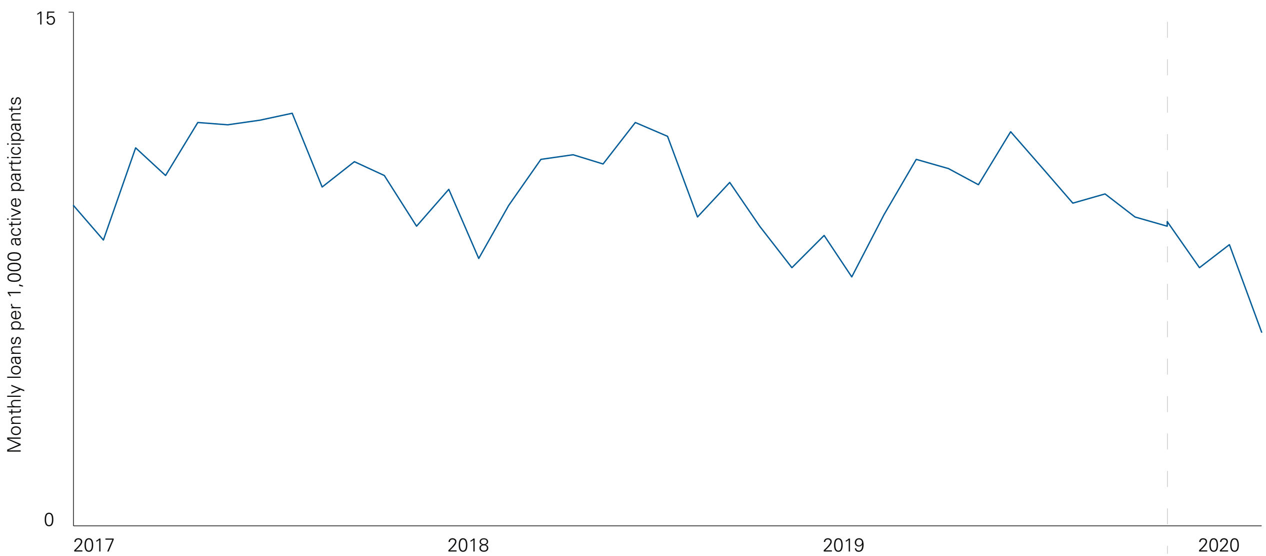
Plan participants can access their retirement savings through a variety of mechanisms. Active participants can often borrow from their account balance and may have the option of hardship or nonhardship withdrawals.

Loan use remained relatively flat through the first three months of 2020 and fell by one-third in April (Figure 9). We speculate that the decline in loan use is partly attributable to a decrease in consumer spending, along with a decline in housing transactions (loans are often used for housing-related expenses).

Figure 9. Loan origination trend

Vanguard defined contribution active participants in plans offering loans

Monthly loans issued per 1,000 active participants



Monthly average (per 1,000 participants)			Loans issued per 1,000 participants			
2017	2018	2019	Jan 2020	Feb 2020	Mar 2020	Apr 2020
10.5	9.8	9.6	8.9	7.5	8.2	5.6

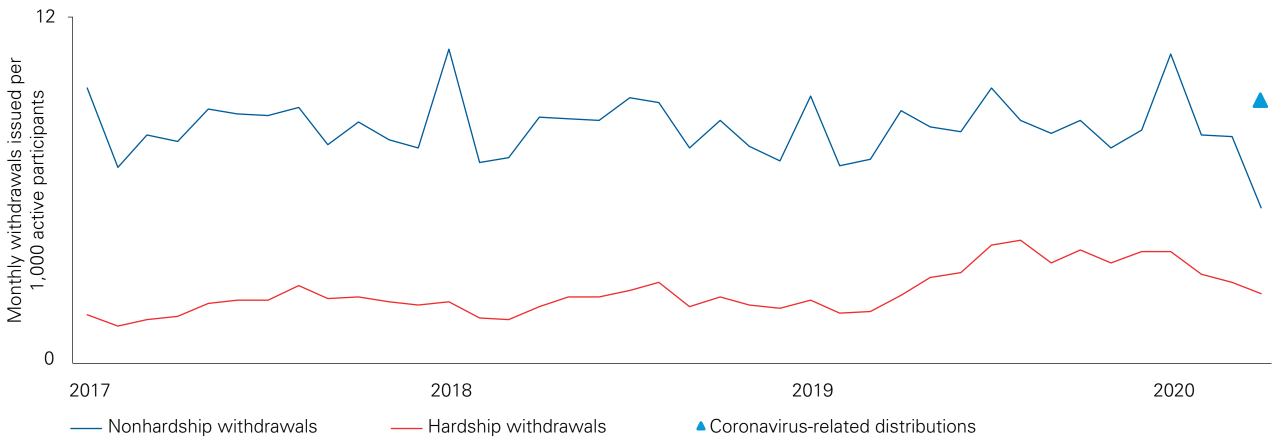
Source: Vanguard 2020.

Overall trends in both hardship and nonhardship withdrawals trended downward through April 2020 (Figure 10).

In late March 2020, Congress passed the CARES Act, which provides additional financial options for accessing retirement assets, including coronavirus-related distributions (CRDs) available to "affected individuals" of COVID-19. During the month of April, following the passage of the CARES Act, slightly less than 1% of participants initiated a CRD. These distributions have more flexibility when compared with traditional plan withdrawals and are exempt from early withdrawal penalties. Therefore, we speculate that participants who met the definition of an affected individual most likely opted to use the CRD withdrawal option instead of other traditional withdrawal types.

Figure 10. Withdrawal trends

Vanguard defined contribution active participants in plans offering withdrawals



Source: Vanguard 2020.

	Monthly average (per 1,000 active participants)			Monthly withdrawals (per 1,000 participants)			
	2017	2018	2019	Jan 2020	Feb 2020	Mar 2020	Apr 2020
Nonhardship withdrawals	8.2	8.3	8.2	10.7	7.9	7.9	5.4
Hardship withdrawals	2.0	2.1	3.1	3.9	3.1	2.8	2.4
Coronavirus-related distributions							9.1

Source: Vanguard 2020.

Implications

Beginning in February 2020, amid fallout from the worsening pandemic, sharp equity declines, decreasing GDP, declines in consumer spending, continued market volatility, and historic unemployment have gained momentum during an unprecedented time in our world and economy. However, as many workers face a variety of financial uncertainties, the overall behaviors in retirement plans have remained steady, and the majority of participants have continued to maintain a long-term view with their retirement plans.

That said, it is important to note that as plans have increasingly implemented automatic solutions in an effort to increase use and simplicity of retirement plans, more employees now have an additional resource that may be accessed in an emergency. And while a small fraction of participants have accessed their retirement savings, those participants, who may have faced a financial shock, are better off than those employees who do not have any retirement savings cushion during this period.

The resilience of participants underscores an important benefit of DC plans. Most participants take a long-term approach to investing and thus represent a patient pool of long-term savings in the financial markets.

Methodology

The universe from which this data is drawn consists of about 1,800 qualified plans and 5 million participants for which Vanguard directly provides recordkeeping services. About 9 in 10 of these plans have a 401(k) or 403(b) employee-contributory feature; the other 1 in 10 is an employer-contributory DC plan, such as a profit-sharing or money purchase plan, in which investments are directed by participants. Unless otherwise noted, all references to "Vanguard" are to the universe, and all data is as of April 30, 2020.

Authors

Brian Alling
Jeffrey Clark
David Stinnett

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Vanguard Institutional
Investor Group

P.O. Box 2900
Valley Forge, PA 19482-2900

Connect with Vanguard® > institutional.vanguard.com
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