Reference Point

T. Rowe Price Defined Contribution Plan Data | As of April 2022

COVID-19: TWO YEARS IN

In February 2020, when the markets started reacting to the growing pandemic, there were a lot of questions about the impact COVID-19 would have on the retirement plan industry and the participants who rely on it. Two years later, we have our answer: Some industries have faced unprecedented challenges, but overall, most participants have stayed the course—through labor market changes, market volatility, and the CARES Act.

So now the question is: What does recovery look like? As our newest edition of Reference Point shows, for some plans in 2021, recovery meant plan design changes to reinstate pre-pandemic features or to stay competitive in an increasingly challenging labor market. Looking forward, some participants may need additional support, especially if they took a large loan or distribution through the CARES Act or tapped into emergency savings.

Here we offer insight to support plan sponsors and guide plan design that can help lead to successful outcomes for participants.

GROWTH DESPITE CHALLENGES

The data highlight encouraging signs observed over the past year, not only from market gains. Plan sponsors and participants took positive steps that show they realize the value of retirement savings programs:

- The percentage of plans offering a match returned to pre-pandemic rates or higher.
- Average employee deferral rates have climbed steadily to an all-time high of 8.5% in 2021.
- After two years at 50%, the percentage of auto-enrollment plans defaulting to 5% or more increased to 52%.
- Market growth contributed to account balance increases across every age group—up 8% from an average of $113,900 in 2020 to a record high of $123,500 in 2021.
- The percentage of participants with outstanding loans decreased from 20% in 2020 to 18.8% in 2021.
- Plan participation increased from 67% in 2020 to 68% in 2021.

+8%

increase in account balances across every age group—up from an average of $113,900 in 2020 to a record high of $123,500 in 2021

PLANS HIT HARDEST BY THE PANDEMIC: WHERE ARE THEY NOW?

In response to the pandemic, a small percentage of plans reduced or suspended contribution matches in 2020, with certain industries faring worse than others.

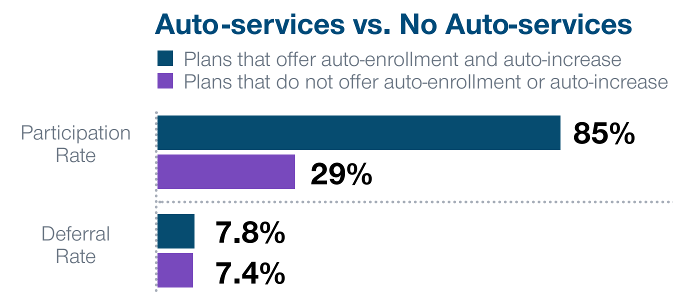
Most plan matches returned in 2021, including for the hard-hit leisure and hospitality and retail trade industries. This support from employers bodes well for participants as they strive to increase their retirement savings, and it signals one more step in the recovery. The match reinstatement may also benefit employers in their efforts to attract and retain talent.

PERCENTAGE OF PLANS WITH MATCH FORMULAS

	2020	2021
LEISURE AND HOSPITALITY	74%	90%
RETAIL TRADE	73%	80%

COMBINING AUTO-SOLUTIONS TO HELP ACHIEVE BETTER RESULTS

The percentage of plans offering auto-enrollment climbed from 62.2% in 2020 to 64.4% in 2021, a recovery over the generally flat change from 2019 to 2020, most likely due to the pandemic. This is significant because the participation rate for plans offering auto-enrollment was 85% compared with only 39% for those without auto-enrollment. The percentage of plans with auto-increase continued its upward trend since 2015, reaching an all-time high of 84%. Auto-reenrollment—a tool plans can use for employees that have not taken action on their own—remained steady at 14% of plans in 2021, with the success rate returning to its typical level of 78% after a slight dip to 77% in 2020.



While it's not surprising that auto-solutions can lead to increased participation and savings, the data continue to illustrate the value of their adoption in tandem. When comparing plans that implement both auto-enrollment and auto-increase with plans that do not elect these services, the difference is significant. Plans that couple auto-enrollment and auto-increase together achieve an 85% participation rate compared with only 29% for those that do not offer the services—nearly three times greater participation. In addition, participants in plans with both auto-enrollment and auto-increase are saving 5% more than those in plans that did not adopt the solutions: an average pretax deferral rate of 7.8% versus 7.4%.

DEFERRALS CONTINUE TO RISE

Average employee deferrals have continued to climb steadily over the last 10 years to a rate of 8.5% in 2021. Deferral rates have generally exceeded the match ceiling and auto-enrollment default rate, demonstrating that participants recognize the importance of saving for retirement. Roth deferrals continued their growth, with 83% of plans offering this option in 2021. Among plans that offer the option, participant usage of Roth has increased 57% since 2018, perhaps a sign of greater financial education.

57%

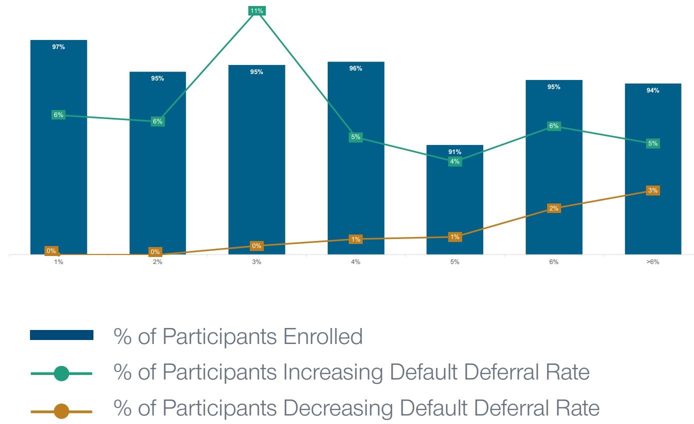
Participant usage of Roth deferrals has increased 57% since 2018

DEFAULT DEFERRAL RATES

Plans are continuing to support participants by offering higher default deferral rates through their auto-enrollment. While the number of plans that offered a 6% or greater default rate remained steady at 36%, the number of plans offering a 5% default deferral increased from 14% to 16% in 2021. This continues the trend upward for the 5% rate since 2018. The adoption of these default rates indicates that plan sponsors recognize the importance of starting participants at a higher rate in order to help them accumulate savings faster.

In addition to plans edging default deferral rates higher to put participants on the path to greater savings, participants themselves are also taking positive steps to increase their deferrals. In 2021, 6.9% of participants increased their default deferral rate, while only .8% decreased from the default. This may indicate that participants can tolerate higher defaults and, as evidenced by the data, will still take action to increase deferrals. This data may also support the decision to offer auto-enrollment at higher default rates to help create more positive outcomes.

Auto-enrollment



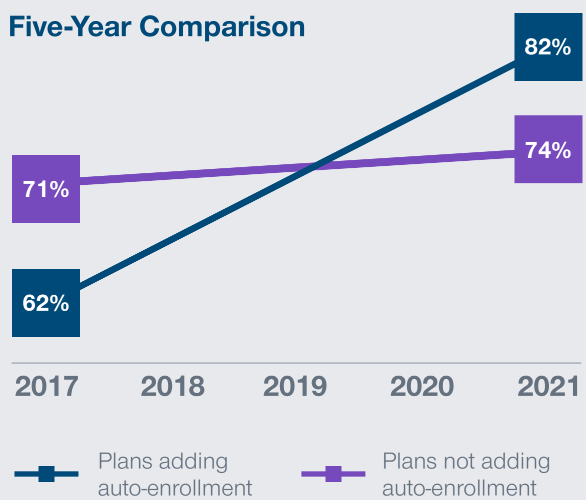
THE CASE FOR AUTO-ENROLLMENT

To demonstrate the correlation between auto-enrollment and increased participation rates, we looked back at plans that had been with T. Rowe Price for more than five years and had adopted auto-enrollment for the first time in 2017. By 2021, these plans experienced a 20-percentage-point increase in participation while similarly tenured plans that did not adopt auto-enrollment only grew by three percentage points.

We then reviewed the data from plans new to T. Rowe Price in 2021 and found striking results. Plans that included auto-enrollment in their design have achieved participation rates of 84%, while those not opting for the service have only a 24% participation rate.

This analysis shows that auto-enrollment is an effective tool for plans wanting to increase participation in order to help drive better outcomes for participants.

Five-Year Comparison



THE EFFECTIVENESS OF AUTO-INCREASE USING THE OPT-OUT APPROACH

The data from the past 10 years present strong evidence that the opt-out approach for auto-increase (when participants are enrolled in auto-increase automatically) is far more effective than the opt-in approach that requires participants to voluntarily elect auto-increase. After holding steady for the past two years, the percentage of plans offering auto-increase using the opt-out method edged up to 48% in 2021.

In 2021, participation in auto-increase was 65% in plans that used the opt-out approach compared with only 11% for plans using the opt-in approach. This is evidence that choosing the opt-out approach as the standard in plan design is an effective nudge to help improve participant saving behaviors.

AUTO-INCREASE PARTICIPATION

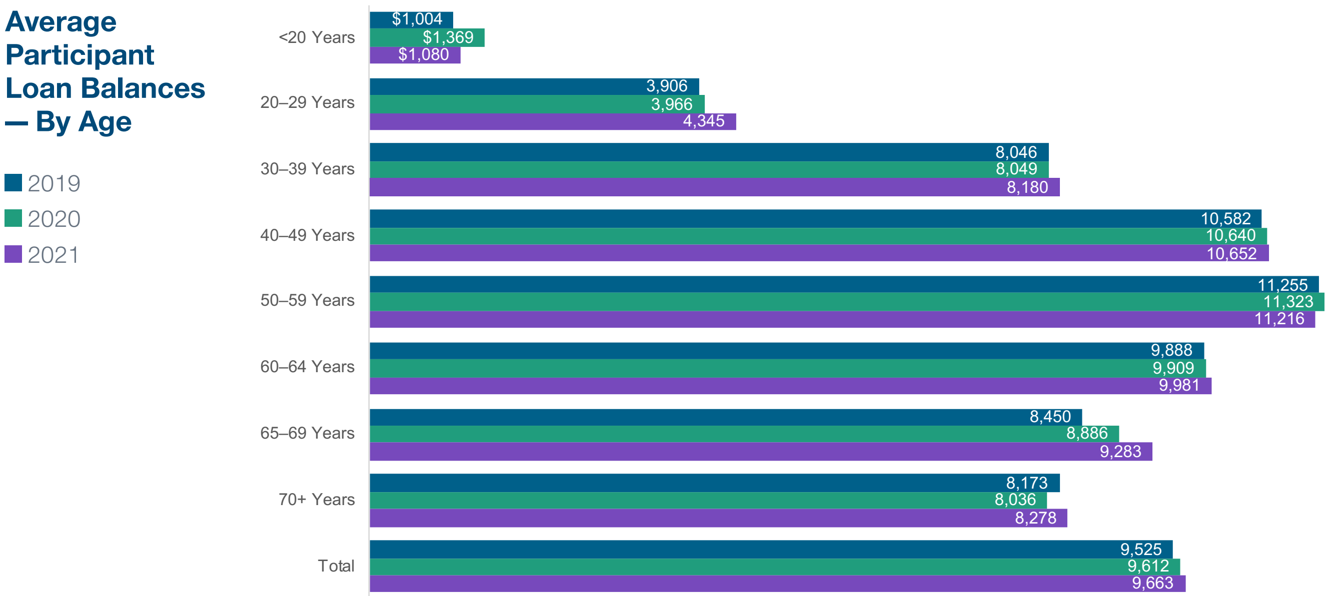
65% via opt-out approach vs. **11%** via opt-in approach

LOAN ACTIVITY

When looking at participant loan behavior in 2021 and comparing it with 2020, there are variables to keep in mind. For example, in 2021, coronavirus-related distributions were no longer available, and some participants may have seen their income return to more typical levels after lockdowns which may have resulted in reduced income the previous year.

In 2021, the percentage of participants with outstanding loans decreased to 18.8%, from 20.0% the previous year. Of those participants with loans, the percentage of participants with multiple loans also declined. However, and possibly due to higher available account balances, the average participant loan balance increased to an average of $9,663. Participants between the ages of 40 and 60 years old continued to hold the highest percentage of loans and outstanding balances, likely due to their competing financial priorities.

Average Participant Loan Balances — By Age



LOANS: PLAN DESIGN CONSIDERATIONS

What can we learn by digging into plan design and the possible relationship between loan availability, participant behaviors, and retirement savings? Plans that allow more than two loans tend to have lower savings rates—dropping from an average deferral of 7.9% to 6.8%. Allowing a greater number of loans is also correlated with higher average loan balances: $10,162 for one loan, $12,424 for two loans, and $13,698 for three or more loans.

Surprisingly, simply offering participants the option of multiple loans does not impact how many participants will act upon it. On average, in plans that allow participant loans, approximately 19% of the participant population will take a loan. This stays fairly consistent between plans that allow one, two, or three or more loans.

Given the potential negative impact that allowing multiple loans has on savings, plan sponsors could consider limiting them to one outstanding loan per participant. This could still help satisfy the participant need while also helping to limit the possibility of loans being used for less essential reasons. Increasing employee education and taking advantage of T. Rowe Price financial wellness resources could also help lead to improved participant behavior.

LOOKING FORWARD

The data from 2021 show us that sponsors and participants continue to understand the value of retirement savings programs. There is still a need for financial wellness programs to help participants manage challenges without losing sight of their long-term goals. Continued adoption of plan design best practices can help drive increased participation and savings rates.

PLAN SPONSOR CONSIDERATIONS TO SUPPORT PARTICIPANTS

In our 2022 Retirement Market Outlook, we introduced three themes—Access and Adequacy, Financial Wellness, and The Investment Landscape—shaping the retirement landscape, and how the industry can respond to address them. The data presented here point even more to the opportunities for plan sponsors to help participants stay on course for retirement despite the challenges they face.

Access and Adequacy

- Use auto-enrollment and auto-increase together to help participants save more.
- Increase the auto-enrollment default rate to help participants reach 15% faster.
- Use the opt-out auto-increase method to keep more participants enrolled in the service.
- Deliver targeted communications to keep participants engaged with the plan and to encourage nonparticipants to enroll.

Financial Wellness

- Limit the number of loans allowed to encourage participants to keep money in the plan.
- Provide financial wellness solutions to educate participants and foster positive financial habits.

The Investment Landscape

- Provide educational resources to help participants maintain a long-term investment perspective and proper asset allocation.
- Consider target date strategies as the qualified default investment alternative (QDIA) or as part of a QDIA reenrollment to help manage asset allocation risk along with other options such as managed accounts.

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